#### DEPARTMENT OF COMMERCE

OFFICE OF

NATIONAL RECOVERY ADMINISTRATION

DIVISION OF REVIEW

THE TOBACCO STUDY
The Tobacco Unit

Industry Studies Section, Tobacco Unit
March 1936

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#### FOREWORD

This study of the Tobacco Industry was prepared by members of the Tobacco Unit of the Industry Studies Section, Mr. M. D. Vincent in charge.

The Tobacco Unit desires to express its appreciation of the unfailing courtesy and cooperation displayed by officials of all Government
departments that have aided in the preparation of this material. Special
acknowledgment is made to the Treasury Department, particularly to the
Income Tax Bureau and Tobacco Tax Division of the Bureau of Internal
Revenue; to the Bureau of Labor Statistics of the Department of Labor;
to the Bureau of Agricultural Economics of the Department of Agriculture;
to the Agricultural Adjustment Administration; and to the Tobacco Division
of the Bureau of Foreign and Domestic Commerce, Department of Commerce.

Similarly, the Tobacco Unit is indebted to all divisions of the Industry; almost without exception members of the Industry have given freely information needed in certain sections of this study.

In the organization and presentation of material the Unit wishes to admovledge valuable editorial assistance from other members of the Division of Review.

At the back of this report will be found a brief statement of the studies undertaken by the Division of Review.

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#### THE TOBACCO INDUSTRY

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#### SUMMARY

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Ever since the Colonial period in Virginia when tobacco was the first medium of exchange and the first export commodity, the story of tobacco has been a panorama of American economic history. The tobacco industry is typical of the revolutionary changes which have taken place in agriculture, manufacturing, distribution and foreign commerce. Altogether, a general study of the tobacco industry affords a wide view of American experience in governmental activities and business development.

Tobacco, today, provides the South Atlantic States an agricultural income greater than that from cotton; it ranks first in other important farming areas. In dollar value, tobacco ranks second among agricultural commodities exported. Its manufactured product is worth a billion dollars wholesale. The labor employed is both white and black, North and South, union and non-union. No other manufactured product, liquor included, furnishes (as of 1935) so large a proportion of the national governmental revenue.

In the spring of 1933, the tobacco industry well illustrated the immediate need for governmental intervention in the public interest. The prices then paid the farmer for his tobacco, the wage levels for labor, the policies toward distributors and consumers — all combined to exhibit depressed prices for the grower and inadequate wages for labor on one side, but continuing large profits for the manufacturers on the other. In 1932, average prices paid farmers for tobacco were far below cost of production. General wage levels were below adequate subsistence requirements. Wholesalers and retailers were suffering severely and, in part, directly from the sales policies and distribution methods of some of the large manufacturers.

Cooperation and, later, an agreement with the Agricultural Adjustment Administration in the fall of 1933, when the manufacturers guaranteed higher price levels for tobacco and a certain volume of purchases; and the compliance of tobacco manufacturers with the President's Re-employment Agreement, represented the first forward steps taken by the manufacturers. It was not until February of 1935 that the cigarette, snuff, smoking and chewing tobacco industry accepted a Code of Fair Competition and that Code was limited solely to labor standards. Later during the Code period, wages were raised somewhat above those existing under the President's Re-employment Agreement, and with that addition, represented roughly a 50% increase over the weekly earnings that had prevailed in early 1933.

There was another Code in the industry -- one for the cigar manufacturers. Under this cigar manufacturing Code, although the Code provided a considerable increase in wages, the long struggle between the handworkers and the machine operators resulted in exemptions and many inconsistencies in wage rates.

The leaf dealers, whose primary business is export, employ negroes for stemming and other unskilled operations during the short marketing season of tobacco leaf. For years these unskilled workers, representing the lowest class of casual labor, have received a meserable pittance as their wages. No Code agreement for leaf dealers was ever reached. Comparisons of wages paid by leaf dealers with those paid by the manufacturers, often in the same areas, show a condition to exist that needs immediate remedy.

The situation existing since the end of the NRA Code period is of decided interest. The large manufacturers in the cigarette, snuff, smoking and chewing tobacco industry have not only continued their wage standards under the Code, but they have raised them. Comparisons with the automobile industry in Section 15, Part A of Chapter II of this study are well worth reading. Although the wage levels, particularly for unskilled negro women, are still on a very low subsistence basis, the general labor story of this particular industry, developed from Code experience, shows for the first time a sense of social responsibility. It is unfortunate that the same conditions do not exist in the cigar manufacturing industry; there, with certain definite company exceptions, even the low code standards have been dropped. On the distribution side of the tobacco industry, wholesalers and retailers have lost the profit advantages received during the Code period; they are continuing actively however, through their associations an attempt to work out their problems.

The whole situation in the tobacco industries became so deeply a national concern that, in February 1935, under an Executive Order of the President of the United States, the Division of Reasearch and Planning of the National Recovery Administration began a survey of the manufacturing industry, covering not only labor but other problems pertinent to the position of the manufacturers in relation to the national economy. Immediately after the Schechter decision and the formation of the Division of Review of the National Recovery Administration, it was determined to continue the Tobacco study, Widening its scope to cover the several divisions of the industry and to develop insofar as possible their inter-relationships. The Tobacco Unit of the Industries Studies Section, Division of Review, was therefore authorized to include in its study a survey of the methods of purchase of tobacco leaf from the farmers, to trace the relation of tobacco to world trade and to examine domestic processing and distribution of all important tobacco products. The present study is a result of that survey. It is not complete, as this report points out; there are wide areas yet to be surveyed; and the need of continued research is indicated constructively in each phase of this present report.

Almost without exception the representatives of the industry have talked freely with members of the Tobacco Unit and have aided materially in the compilation of part of the information here presented.

The Tobacco Study as here presented surveys the tobacco industry in the following relationships:

Chapter I. - The Large Corporation in the Tobacco Manufacturing Industry.

There is discussion of the divorce of management from ownership. Non-voting stock, first used as a legal device for control; the character of the directorates and the limitation of their membership to those holding other official positions in the corporations;

the remuneration to management; -- these are all given critical examination. Cigarette selling prices and policies, the effect of these policies on wholesalers and retailers, and on the relative position of the largest companies in the industry are studied. Comparisons are made of their assets and earnings with those of the entire tobacco industry and with other industries.

#### Chapter II. - The Economic and Social Status of Labor.

The study of wage levels gives an opportunity to trace regional, sex, and racial differentials. The extent of welfare practices is described and the question is raised whether the welfare programs at present conducted offer resistance to adequate wage levels. Labor studies are presented to reveal certain inadequacies of the wage structure.

A survey was made during 1935 by John P. Troxell covering the labor union organization in the cigarette, snuff, smoking chewing tobacco industry. This survey is in the file of "Special Materials" of the Division of Review. An independent survey, by Dr. Charles S. Johnson of Fisk University, was made during the Code period and was especially concerned with living conditions in a number of tobacco manufacturing centers in Virginia, North Carolina, and Kentucky.

#### Chapter III. - Integration with Agriculture.

But a few of the many problems are listed, indicating the inter-dependence of this industry and tobacco culture. No one of the present methods open to the farmer for selling his tobacco is free from fault. There is need of immediate consideration of this problem by government as well as by industry.

The readjustments in demand for various types of tobacco have resulted in pronounced shifts in production areas. The dependence of the South Atlantic States on both tobacco culture and tobacco manufacture is of such significance that this area is given special consideration.

#### Chapter IV. - Foreign Trade in Leaf Tobacco.

So large a proportion of American grown leaf ordinarily finds its way into foreign markets that the American tobacco manufacturer alone cannot guarantee reasonable prosperity to the American tobacco farmer. Certain foreign markets have been lost and cannot be regained. This chapter indicates possibilities of new markets abroad, based on further analysis of world requirements. Trade barriers, such as government monopolies, preferential duties and quota restrictions are discussed and comment is made on the tariff walls erected in the past by this Government and their restrictive influences on tobacco export.

#### Chapter V. - The Cigar Manufacturing Industry.

All the problems incident to a declining industry are here illustrated. The never-ending pressure on labor, as on all other costs, has resulted in wage levels, still continuing, that have no

license to exist in American industry. The increasing use of the cigar making machine has had less influence on total labor employed than has the decline in cigar production. No attempt has been made to answer these problems.

A field survey now in progress by the Bureau of Labor Statistics, Department of Labor (covering wage levels and annual earnings, in plants manufacturing cigars by hand and in highly mechanized factories) should be of great aid in showing the unfortunate conditions surrounding labor in this industry. This is but another instance of the need of further study.

#### Chapter VI. Distribution of Tobacco Products.

This chapter is a consideration of the national problems that arise from the distribution and the advertising policies of the manufacturers. Seven changes in the channels of distribution for tobacco products are described; the subject of demand in relation to price is considered; the effect of loss-leader practice is evaluated. The decline of the tobacconists' shops, the growth of chain stores and of co-operative of various kinds, and direct selling by manufacturers to retailers of large purchasing power -- these are factors that call for continued analysis. The use of large scale advertising campaigns, running into scores of millions of dollars, presumably to develop consumer demand; the effects of advertising on the whole industry; the social and economic consequences of advertising allowances, free deals and the like, constitute a field of more than industry interest and significance.

## Chapter VII. - The Importance of the Tobacco Manufacturing Industry to the Federal Government as a Source of Tax Revenue.

Recognizing that it is not the province of this study to pass upon the various problems of taxation as illustrated by this industry, the fact that tobacco manufacturing is the largest single industry source of federal revenue warrants a full statement of its contribution and a direct comparison with other revenue sources. The special State excise taxes and State sales taxes are discussed, for they tend to decrease government revenue from tobacco products. Mention is made also of the graduated tax on cigars and the different tax rates on cigarettes and on other products.

### Chapter VIII. - Possibilities for Research in the Tobacco Industry.

Herein are outlined the fields of research which invite the attention of government and industry. There is opportunity for the tobacco industry to establish a Tobacco Research Foundation in which all divisions of the industry take part. Some such plan would permit the tobacco industry to work its own way out of its many maladjustments, and make thereby a valuable contribution to the national economy.

#### APPENDICES.

#### Appendix 1 --- Production

Table Number 1. Quantities of Cheving, Smoking and Snuff Tobacco,
Cigars and Cigarettes manufactured by the Tobacco
Industry in the United States, and the quantities,
(and Percentages of the total), produced by selected groups of corporations. For calendar years
1934 to 1926 inclusive (2 sheets)
Original and ten photostatic copies

Table Number 2. List of statements basic production data

FOTE: This Appendix bound with Chapter I.

#### Appendix 2 -- Financial

Table Number 1. Statement showing comparisons of Net Sales, Compiled Net Profit, Statutory Net Income and Cash Dividends paid for certain groups of Tobacco Corporations to all Tobacco Corporations reporting on Income Fax Returns for years 1926 - 1934 inclusive.

Table Number 2. Letter dated January 27, 1936 from Wm. H. McReynolds, Administrative Assistant to the Secretary of the Treasury. (8 pages)

Table Number 3. Market Value, as at January 2, 1936, of the Capital Stock of the Big Three.

Table Number 4. Basic Financial Data.

NOTE: This Appendix bound with Chapter I.

#### Appendix 3 -- Financial

Table Number 1. The Official Positions and Stock Holdings held by the Directors of the Big Three (3 pages).

Table Number 2. Corporation Income Tax Returns for 1923 - 1933 for six groups as listed on each page of this table, showing for each year totals for certain items of assets, liabilities, receipts, and deductions; also compiled net profit or deficit, statutory net income or deficit, net loss for prior year, cash dividends paid, gross profit from sales, and gross profit from other operations (6 pages).

NOTE: This Appendix bound with Chapter I.

#### Appendix 4 -- Taxation

- Table Number 1. Total Revenue Receipts of the United States Government; Total Internal Revenue Collections, (showing revenue from tobacco taxes and other major groups); and Total Customs Receipts, (showing import duties on tobacco and all other commodities). For Selected Years between 1935 and 1914.
- Table Number 2. Changes in Rates of Taxation on Tobacco Products from 1914 to 1935 (inclusive).
- Table Number 3. States Taxing Cigarettes and their rates of taxation; States Taxing Smoking Tobacco and their rates of taxation; States taxing Chewing Tobacco and their rates of taxation; States taxing Snuff and their rates of taxation.
- Table Number 4. Receipts from Cigarette Taxes and Per Capita Cigarette Sales in States Taxing Cigarettes Alone.

Table Humber 5. List of Statements.

NOTE: Appendix 4 is bound with Chapter VII.

#### Appendix 5 - Cigar Manufacturing Costs

Appendix 6 - List of Basic Tables received from the Department of Labor on Number of Employees, hours, and earnings in the cigarette, snuff, chewing and smoking tobacco manufacturing industry

MOTE: A list of these Tables is appended to Chapter II. The Tables will be found in Appendix 6.

#### Appendix 7 -- Distribution

Appendix 8 -- List of Codes and List of Finished Code Histories in the Tobacco Industry.

Table Number 1. List of Codes.

Table Number 2. Finished Code Histories in the Tobacco Industry in the National Recovery Administration files.

#### Appendix 9 -- Foreign Trade in Tobacco

Table Number 1. A description of a series of charts and tables in photostat form, covering exports of leaf tobacco and tobacco products from the United States to each of seven countries, which are in National Recovery Administration files, Tobacco Unit, Exports.

#### CHAPTER I

#### THE LARGE CORPORATION IN THE TOBACCO MANUFACTURING INDUSTRY

"The translation of perhaps two-thirds of the industrial wealth of the country from individual ownership to ownership by the large, publicly financed corporations vitally changes the lives of property owners, the lives of the workers, and the methods of property tenure." (\*)

#### A. DEFINITION. .

Berle and Means define the "quasi-public corporation" as one "in which a large measure of separation of ownership and control has taken place through the multiplication of owners" (\*\*), and names among other distinguishing characteristics that of the public market for its securities.

B. SIGNIFICATION IN THE SIGNRETTE, STUFF, SHIFTER AND SMOKING TOBACCO MANUFACTURING LIBUSTRY.

The growth of the quasi-public corporate structure is of peculiar significance in the tobacco manufacturing industry. The monopoly developed by The American Tobacco Company in the last decade of the nineteenth century and continued until 1910, resulted in the decree of dissolution by the Supreme Court of the United States in May, 1911, based on direct violation of the Sherman Act. In its decision, the Supreme court recognized the interest of the general public and further the large interests of the investors in the securities of the company. (\*\*\*)

The tobacco industry, together with the oil industry, was responsible in large part for direct national recognition of the interests of the general public and the interests of investors in the conduct of large corporations.

Since 1911, the corporate system has grown by leaps and bounds. As of January 1, 1930, the two hundred largest non-banking corporations, with combined assets of eighty-one billions of dollars, represented nearly half of all corporate wealth in the United States. (\*\*\*\*) Listed among these two hundred corporations are four tobacco companies: The American Tobacco Company, Liggett & Myers Tobacco Company, P. Lorillard Company, and the R. J. Reynolds

<sup>( \*) &</sup>quot;The Modern Corporation and Private Property", by Berle and Means, Preface, page vii.

<sup>( \*\*)</sup> See further notes and quotations, pages 7-10 of this chapter.

<sup>( \*\*\*)</sup> U. S. v. The American Tobacco Co., et al., 221 U.S. 185.

<sup>(\*\*\*\*)</sup> Berle and Means, page 19.

Tobacco Company, all of them owned or controlled by the American Tobacco Company before its dissolution. (\*)

As compared with average assets of forty and one-half million dollars for each of the two hundred largest non-banking corporations, these four tobacco companies show average assets of 172 million dollars and three of them, the American Tobacco Company, the Liggett & Myers Tobacco Company and the R. J. Reynolds Tobacco Company, show combined assets of 578 million dollars, or an average of 193 million dollars. (\*\*) The market value of the preferred and common stocks of the Big Three together, as of January 2, 1936, was \$1,481,596,000 (\*\*\*) (based on stock outstanding, December 31, 1934.

In addition to the four tobacco companies named, three snuff companies which were component parts of the trust prior to its dissolution, and certain other tobacco manufacturing corporations, illustrate clearly many of the characteristics of the quasi-public corporate structure. (\*\*\*\*)

- \*) Abundant sources for definite statistical and financial information concerning these four companies are available. Standard Statistics, Moody's and other published manuals, have together recorded their growth since 1911. Government sources, the more important listed below, have also been extensively used.
  - 1. Treasury Department, Bureau of Internal Revenue. (Group information only).
    - (a) Statistical Section, Income Tax Unit
    - (b) Tobacco Division, Miscellaneous Tax Unit
  - 2. Federal Trade Commission
  - 3. Securities and Exchange Commission.
- ( \*\*) Berle and Means, page 20.
- ( \*\*\*) See Appendix 2, Table 3.
- (\*\*\*\*) "The Modern Corporation and Private Property" (Berle and Means, MacMillan, 1933). Numbers in parentheses refer to pages.
  - 1. The two hundred largest non-banking corporations have shown a rate of growth of 5.4% (from 1909 to 1928), more rapid than that for all coporations of 3.6% in the same period, and as compared with a rate of 2.0% for all non-banking corporations other than the two hundred. (35)
  - 2. "The trend of the recent past indicates --- that the great corporation --- will become increasingly important in the future! (41) "There is apparently no immediate limit to its increase. It is coming more and more to be the industrial unit with which American economic, social and political life must deal." (44)
  - 3. "The process of stock dispersion has proceeded furthest in the very large companies." (47) -- "The larger the size of the

259.

company, the smaller was the proportion of stock held by the managements" (i.e., officers and directors). (52)

- 4. Individuals with taxable incomes under \$5,000, estimated in number from three and one-half million to six and one-half million, received (1929) 26.28% of all corporate dividends (60). Based on 1922 tax returns, "the conclusion seems certainly warranted that corporations represented very much more than half of the national savings apart from those directly employed by the owner". (64)
- 5. "The value of an individual's wealth is coming to depend on forces entirely outside himself and his own efforts". (67)
- "Finally, in the corporate system, the 'owner' of industrial wealth is left with a mere symbol of ownership while the power, the responsibility and the substance which have been an integral part of ownership in the past, are being transferred to a separate group in whose hands lies control". (68) Control over industrial wealth can be and is being exercised with a minimum of ownership interest. (69) Five major types of control evidenced: "(1) control through almost complete ownership, (2) majority control, (3) control through a legal device without majority ownership, (4) minority control, and (5) "management control" (70), defined as "ownership so widely distributed that no individual or small group has even a minority interest large enough to dominate the affairs of the company". (84) "The stockholder is practically reduced to the alternative of not voting at all or else handing over his vote to individuals over whom he has no control and in whose selection he did not participate." (87)
- 7. "Are we to assume for him" (i.e., the controlling individual) "what has been assumed in the past with regard to the owner of enterprise, that his major aim is personal profits? Or must we expect him to seek some other end presitge, power, or the gratification of professional zeal?" (122)
- 8. "For the tens and even hundreds of thousands of workers and of owners in a single enterprise, individual initiative no longer exists. Their activity is group activity -- the problems of control have become problems in economic government". (125)
- 9. "Both the New York Stock Exchange and the New York Curb have refused to list new issues of non-voting common stock". (76)
- 10. "Legally, the proxy is an agent for the shareholder; and necessarily under a duty of fidelity to him. Factually, he is a dummy for the management, -- perhaps assisted by the company's attorney". (245)
- ll. "There is no longer any certainty that a corporation will in fact be run primarily in the interests of its stockholders. The extensive separation of ownership and control, and the strengthening of the powers of control, raise a new situation calling for a decision whether social and legal pressure should be applied in an effort to insure corporation operation primarily in the interests of the 'owners' or whether such pressure shall be applied in the interests of some other or wider group". (333)

#### C. THE BIG FOUR - A MISNOMER

While P. Lorillard Company was an important unit at the time of dissolution of the trust, in fact it was given a percentage (in value) of cigarettes, smoking tobacco, and little cigars in excess of that alloted to Liggett & Myers Tobacco Company, and further a position (and products) far more important than that given to the R. J. Reynolds Tobacco Company (\*), its present status does not warrant its consideration with the three other large companies. It is, therefore, for the purposes of this study included in another group of companies.

#### D. 'OWNERSHIP AND CONTROL.

#### 1. Stock Ownership

An analysis of the total capital stocks of the Big Three outstanding as of December 31, 1934 (\*\*), clearly shows the marked degree of separation of ownership from control which exists in these corporations. The total par value of stock issued and outstanding by these three corporations at the above date was \$372,241,125. Of this amount, only 2.75% was owned by the officers and directors, while 97.25% was owned by stockholders not directly connected with the management of the corporation's affairs.

The percentage of the capital stocks of all classes, outstanding as of December 31, 1934, owned by directors and officers for each of the three corporations, and the stockholdings of all others follow:

	Percentages Ow	med By
	Officers and	
	Directors	Others
American Tobacco Company	.28	99.72
Liggett & Lyers Tobacco Co.	1.75	98.25
R. J. Reynolds Tobacco Co.	7.98	92.02
Together	2.75	97.25

The R. J. Reynolds Tobacco Company shows by far the largest proportion of stock ownership by officers and directors, approximately 8% of the total capital stock outstanding. In the American Tobacco Company, the management owns a negligible portion, approximately 1/4 of 1% of the total capital stock outstanding. This company is an excellent example of the extent to which the control of the large corporation has passed from property owners to centralized management groups.

<sup>( \*) &</sup>quot;Competition in the American Tobacco Company", by Cox (1933) p. 30.

<sup>( \*\*)</sup> Source: Securities and Exchange Commission. This subject is treated in greater detail in Appendix 2.

The modern large corporation is, of necessity, a form of business organization providing for and requiring a wide distribution in the ownership of its securities. The divorcement of ownership from control is not a new problem, but one which must continue to command increasing attention. Certain files and records of the Securities and Exchange Commission are publicly available to acquaint stockholders and others interested with pertinent facts on this and other related matters. As long ago as 1927, Professor William Z. Ripley of Harvard University (\*) suggested "introduction of shareholders' independent audit or general check-up committees", and commented upon the fact that "such independent auditing at the expense of the corporation but under the supervision of shareholders entirely independent of the management, is necessary under the British Companies Act; as also in Germany. " The definite and permanent advantages to management of some form of direct stockholders representation is obvious.

#### 2. Non-Voting Stock

Under this same subject, the relation of ownership and control, the employment of the legal device of non-voting stock is of decided interest. The considerable extent of its use by these three corporations in the tobacco industry, as an aid in retaining control by the management, is most pertinent to this study.

This type of stock not only dis-franchises the owner from any right of participation in the election of the directors, but prohibits its holder from any voice whatever, direct or indirect, insofar as the management of the affairs of the corporation is concerned. The interest of the owner of non-voting stock is practically limited to the dividends which he may receive by virtue of his stock ownership.

Due to the evident limitations of non-voting stock and the discrimination as between stockholders which this instrument permits, the New York Stock Exchange and the New York Curb have prohibited the listing of new issues of non-voting stock. (\*\*).

The R. J. Reynolds Tobacco Company was the first of these three corporations to make use of this class of stock, by the authorization and sale of 100,000 shares of Common B stock without voting rights, with a par value of \$100.00 per share, in 1918 (\*\*\*). Under the preemptive rights of the common stock holders, this non-voting stock was first offered to them.

<sup>( \*) &</sup>quot;Main Street and Wall Street", Little, Brown and Company, Boston, 1927, page 215.

<sup>( \*\*)</sup> See note 9, page 9.

<sup>( \*\*\*)</sup> Later changed to par of \$25.00 and again to par of \$10.00.

The Li ett & M. ers Tobacco Company followed the example of the R. J. Reynolds Tobacco Company in 1920, selling \$10,733,200 of Common B stock, and the American Tobacco Company, nine years later, sold its first issue of this class of stock. As of December 31, 1954, the records of the Securities and Exchange Commission show that out of a total par value of \$372,241,125 of all stock issued and outstanding of these three corporations in the tobacco industry, \$225,288,525 or 60.52% consisted of non-voting stock. The percentages of non-voting and voting stocks outstanding in each of these three corporations as of December 31, 1934, were as follows:

	Percent of	Stock
	Non-Voting	Voting
American Tobacco Company	45.74	54.26
Liggett & Myers Tobacco Co.	56.40	43.60
R. J. Reynolds Tobacco Col	90.00	10.00

It will be noted that stockholders owning 10% of the par value of all stock outstanding of the R. J. Reynolds Tobacco Company are entitled to participate in the selection of the management of the corporation, while stockholders owning 90%, the holders of the Common B stock, are deprived of any voice in the direction of the corporation's affairs. While this illustration exemplifies to an extreme degree the extent to which this legal device of non-voting stock has been employed in the tobacco industry, it should, in fairness to this company, be stated that only \$10,000,000 of this amount resulted from the sale of non-voting Class B stock, the remaining \$80,000,000 being accounted for by stock dividends declared by the directors of the corporation from its surplus.

In discussing the distribution of the par value of stock outstanding between officers and directors, and other, it was stated that the officers and directors own less than 3% of the total capital stock outstanding, at par value, when considering the combined position of the three companies. In making a similar comparison of the votes held by officers and directors and those held by others, it was found that the former have increased their percentage from 2.75% of the par value of all outstanding stock owned to 6.59% of the number of votes conferred by reason of their stock ownership of those classes of stock possessing voting rights. The percentage of votes held by reason of stock ownership as between officers and directors and others for each of these companies is as follows:

Percen	+0000	Dogg	Das
rercen	itages	ownea	D.V

	Officers and	
	Directors	Others
American Tobacco Company	.43	99.57
Liggett & Myers Tobacco Co.	3 <b>.7</b> 9	96.21
R. J. Reynolds Tobacco Co.	34.44	65.56
Together	6.59	93.41

Because of the wide divergence between the three companies in percentage of voting stock to total stock outstanding, the average figure is of little significance.

As of December 31, 1934, the total stock holdings of all classes of stock held by the managements of Liggett & Myers Tobacco Company and the American Tobacco Company were insignificant. It is evident that their managements were no longer dependent for control upon the stock they own, whatever differences in character or amounts of the various stocks outstanding. For these two companies, the transition period from strong minority control to direct management control has been ended.

The situation as regards the management of the R. J. Reynolds Tobacco Company (incorporated under New Jersey laws) differs from that of the two other companies. The management of this company owned slightly more than 1/3 of all voting stock as of December 31, 1934. In addition thereto, 200,000 shares of common voting stock, or 20% of the total voting stock, was in the Retirement and Insurance Investment Fund (\*); these shares, company-owned, cannot be voted under New Jersey law. Because of the fact that voting privileges given to only 10% of the ten million shares outstanding, and because of the unusual terms of "employee profit participation" (\*\*) and its direct incentive for ownership of common voting stock, all classes of employees of the R. J. Reynolds Tobacco Company are interested in the acquisition of common voting stock, and in the ratio that this class of stock bears to all other stock outstanding.

In this company, therefore, management and ownership are not divorced insofar as the voting stock is concerned. The significance lies in the ten to one ratio of non-voting to voting stock, a ratio so abnormal that only the remarkable success of the management in earning profits has warranted the continuance of such a ratio to this date.

\*) Of the total of one million shares of common voting stock of this corporation, the records of the company filed with the Securities and Exchange Commission indicated that 307,000 shares were owned by employees other than officers and directors, as of December, 1934. As of January 1936 (and after a sale in 1935 to employees of the company by the Executors of the Estate of Mr. Bowman Gray, former Chairman of the Board of Directors, of all or part of his holdings of 75,000 shares of common voting stock), eighteen hundred employees, other than directors or officers, were stockholders. Four hundred of these were new stockholders. (Derived from a letter from the company, dated January 27, 1936.) Stock holdings of common voting stock as of January 1936 are therefore indicated to be as follows:

 Shares

 Officers and Directors
 269,000

 Retirement & Insurance Investment Fund
 200,000

 Other Employees
 382,000

 0therwise Held
 149,000

 Total Stock Outstanding
 1,000,000

( \*\*) See .page 17, this chapter.

The unusual era of prosperity through which America passed from the turn of the last century to 1929 was responsible, the Sherman and Clayton Acts notwithstanding, for tremendous corporate growths and profits. The return from investment in the R. J. Reynolds Tobacco Company to those who bought either its common or non-voting B stock as late as 1916 or 1917, seems hardly credible. Is it to be wondered at that the investor gave but scant heed to the right conferred upon him in his stock certificate—or to their lack?

Similarly, though in lesser degree, the earnings of the two other companies during the same period, were such that without interruption the management advanced toward complete divorcement from supervision by stock ownership.

#### 3. Character of the Directorates

The files of the Securities and Exchange Commission, covering the year of 1934, were examined to secure the lists of individuals on the boards of directors of these three large corporations in the tobacco industry. Every one of the forty-one directors (American Tobacco Company with 17; Liggett & Myers Tobacco Company with 12; R. J. Reynolds Tobacco Company with 12) constituting all the directors for the three companies, held other official positions in one capacity or another with these corporations. This appears of unusual significance since it is customary for all corporations comparable to these in size to have at least some representation on their boards of directors of stockholders with no other official relation. It is evident that a board of directors so consituted is directly subservient to management control.

It is apparent also that the Big Three, due to their earnings and strong financial position, have maintained their independence of any outside banking or financial assistance. One of the fundamental conceptions of director responsibility is that of examining and passing upon the acts of management, in behalf of ownership. Insofar as this conception of the duty of directors is concerned, a question arises at once when dual responsibility is thus accepted by management. In Appendix 3 of this study, dealing with the Cigarette, Snuff, Chewing and Smoking Tobacco Manufacturing Industry, tables are presented based on information from the Securities and Exchange Commission, showing the official positions and stock holdings of these directors.

#### 4. Returns to Management

#### (a) Preliminary

Today, increasing interest is displayed by stockholders in the amounts of salaries that large corporations are paying to executives. The Bureau of Internal Revenue and Securities and Exchange Commission are the chief Gov't sources for information of this nature. Additional information concerning salaries and other returns to management paid by the three large tobacco corporations to officers and directors has been obtained from data filed by these companies with the Federal Trade Commission, in its survey of the tobacco manufacturing industry for the five year period 1928 to 1932 inclusive.

These three companies have filed with the Securities and Exchange Commission their respective profit participating plans for officers and directors for the year of 1934. Two of the three — the R. J. Reynolds Tobacco Company and the American Tobacco Company — in filing with the Commission, made their data covering executive salaries immediately available to the public.

Liggett & Myers Tobacco Company, in filing this information, marked it as "confidential" and requested in accordance with the law a private hearing before the Commission for its decision as to publication of the data. As of January 1936, no decision had been made by the Commission.

Therefore, to make a comparable analysis of the remuneration of officers and executives of those companies, it has been necessary to rely to a considerable extent upon the five year period 1928 to 1932 inclusive, as shown in the records of the Federal Trade Commission.

#### (b) By-law XII

(i) The American Tobacco Company shows the most liberal policy in the remuneration of its executives. During the five year period under examination, the records indicate that, together, officers and directors of this corporation received total compensation of \$12,866,101, of which \$3,706,205 represented salaries and \$9,159,895 other compensation from participation in the profits of the company in accordance with its By-law XII. This profit participation plan provides that the president and five vice-presidents together shall be entitled to participate in ten percent of the annual net profits of the company, (after dividends on preferred stock) in excess of \$8,222,245.82, the estimated amount of the net profits earned during the year 1910. The plan further provides that the amount available shall be distributed: 25% to the president and 15% to each of the five vicepresidents. This plan of participation in the company's profit, allwed to executives, accounts during these five years for more than 70% of their total compensation, approximately two and one-half times their fixed salaries.

During this five year period, \$3,848,620 was paid to the president as total compensation, approximately 30% of the entire compensation paid to all executives.

The total compensation paid in 1930 and 1931 was larger in each of these years than in 1929. The large profits of this company (American Tobacco Company) for these years are discussed later in this chapter.

The remuneration of the president of the American Tobacco Company for this five year period averaged in excess of three-quarters of a million dollars per annum, and in two of these years, 1930 and 1931, amounts exceeding one million dollars each year were paid to him. This executive received the highest remuneration of any of the Big Three executives.

#### (ii) Liggett and Myers Tobacco Company

A comparison of the profit sharing plan for executives of the Liggett & Myers Tobacco Company shows that it is practically identical with the plan of the American Tobacco Company in all respects, save one. This plan, also, is outlined in a By-law XII, suggesting a common parentage. The one difference between the two plans, however, has great significance. The plan of the American Tobacco Company provides for participation by the president and vice-presidents in 10% of the net profits after deduction, while the Liggett & Myers Tobacco Company limits the participation of their officials to 22% of similarly determined net profits.

Furthermore, the 1928-1932 report of the Federal Trade Commission previously referred to clearly shows that the <u>fixed</u> salaries of the six participating executives of the Liggett & Myers Tobacco Company are substantially lower than those paid by the American Tobacco Company. During this five year period, the American Tobacco Company paid its president in fixed salary a total of \$667,500 as compared to \$250,000 paid to the president of the Liggett & Myers Tobacco Company.

The total compensation paid to executives of the Liggett & Myers Tobacco Company was less than 43% of the total compensation paid to executives of the American Tobacco Company. While a certain proportion of this difference in the total amount of compensation is explainable by comparison of their net income records, by far the major portion is accounted for by the variation in the percentage of participation. It should be noted also that the total compensation paid to the President of Liggett & Myers is 70% less than the amount received by the president of the American Tobacco Company during this same period.

#### (iii) R. J. Reynolds Tobacco Company

While both the American Tobacco Company and Liggett & Myers Tobacco Company have definite plans for remuneration of their chief executives as previously outlined, the "employee profit participation plan" of the R. J. Reynolds Tobacco Company differs so materially from the plans of the other two companies that direct comparisons cannot be made. While the Federal Trade Commission in its report on the period 1928-1932 listed the total amount of compensation by the executives of the two other large companies, it listed only the specific salaries of the officers and directors of the R. J. Reynolds Tobacco Company. This company is therefore treated under Section (c) immediately following.

#### (c) Recent Developments

Comparisons thus far made are based primarily on Federal Trade Commission data and refer to the years 1928 to 1932 inclusive. The following comments are based upon the material filed by these three companies with the Securities and Exchange Commisson as of December 31, 1934. No information is available for the intervening year of 1933. As discussed later in this Chapter, in connection with the financial growth of these companies, their combined earnings available for dividends in 1932 (\$100,017,097) were considerably larger than in 1929 (\$84,406,253). Their profit showing did not indicate any impact from the depression until 1933. Since 1932 their profits have been so far below the immediately prior period that remuneration to management insofar as it is based on earnings naturally has shown a decided decrease.

#### (i) Liggett & Myers Tobacco Company

As previously stated, certain information filed with the Securities and Exchange Commission by the Liggett & Myers Tobacco Company is not as yet available, so that it is not possible to make a direct comparison of the amounts of "other compensation" for the three companies. Significant facts about the two other companies are, however, available.

#### (ii) American Tobacco Company

On July 12, 1933 at a meeting of the board of directors of the American Tobacco Company a resolution was unanimously adopted, the following being a portion thereof:

"This Company does hereby declare its policy that hereafter no President or Vice President

shell be elected to office unless he shall in advance, as part of his terms of compensation for his employment, agree in writing to waive any payments to him under Article XII of the By-Laws of this Company in excess of an amount computed in conformity with the following formula."

Then follows a formula specifying the method for calculating the amounts to be paid under Article XII to the president and to each of the five vice-presidents of the company for the years of 1935, 1934, 1935 and each year thereafter, reducing somewhat the remuneration to officers and based on larger and increasing amounts of deductions from earnings before setting up 10, of the remaining earnings as their remuneration.

The company further made the statement to the Securities and Exchange Commission that during 1934, no payments in excess of \$30,000 to any one person resulted from the profit sharing arrangements. With Article XII apparently still unchanged as a By-Law, it is evident that there have been waivers of its full privileges by the executives of this corporation. It is presumed that the publicity resulting from the report of the Federal Trade Commission, combined with the heavy drop in earnings were largely responsible for these changes.

#### (iii) R. J. Reynolds Tobacco Company

From data in the dockets of the Securities and Exchange Commission, as of December 31, 1934, there has been secured the Reynolds plan for "employee profit participation" by both officers and employees.

Article XII of its By-laws is quoted herewith:

"All of the Company's officers and employees who have owned its common stock and have been in its employ for not less than twelve months, then next preceding may be allowed, in the discretion and at the option of the Board of Directors, beginning with the year 1912, to participate in proportion to the Common Stock thus owned, in the Company's annual profits which are in excess of the percentage of the profits earned during the year 1910, to wit: 22.19 per cent, not exceeding, however, 10 per cent of those profits in excess of 22.19 per cent of its entire outstanding issue of Common Stock, taking into account pro rata any increase or decrease thereof made during the year. The Common Stock owned by an officer or

employee, for the purpose of this By-law, beginning with the year 1916, shall include any stock purchased during the year from an officer or employee or from the personal representative of a deceased officer or employee, provided such stock would have entitled the former owner to participate in proportion thereto had it been held for the entire twelve month period." (\*)

As the above plan for profit participation is based on holdings of common voting stock, the company does not consider that amounts distributed under the provisions of this plan should be classified under "other compensation":

The outstanding differences in this plan from that of the other two companies are (1) the necessity of investment in the common voting stock of the company (\*\*) in proportion to the return realized, (2) the provision whereby all officers and all employees may participate, based on their holdings of common voting stock, and (3) employment by the company for not less than twelve months.

Again referring to the Securities and Exchange Commission, there was set aside from the profits of the year 1934 and carried to reserve for the Retirement and Insurance Investment Fund the sum of \$500,000. As this fund contains 200,000 shares of common stock, it is evident that the participation of this fund represented \$2.50 per share. There was also a declaration by the Board of Directors on December 31, 1934, under Article XII of the company's By-Laws and payable to 1,489 officers and employees in the sum of \$1,629,257.50. Based on the \$2.50 per share participation in the fund, it is assumed that the number of shares participating in the last named amount is 651,703.

The officers and directors of this company owned 334,410 shares of common holding stock as of March 18, 1935 (\*\*\*). Based upon such holdings there was

- ( \*) There has been no increase in the amount (\$10,000,000) of common stock (voting) since 1916. (Except changes in par value and consequently in number of shares). The practical result has been that 22.19% or \$2,219,000 has been deducted from profits each year, before the 10% is determined as "employee profit participation" on the employee-owned common voting stock.
- ( \*\*) The company reports that there have been many exchanges by employees, of B stock for common voting stock, on a basis of heavy premiums for the common voting stock.
- ( \*\*\*) See Table 1, page 66 Appendix 3.

evidently distributed to the officers and directors the sum of \$836,025 under the "employee profit participation plan", or approximately one-half of the total paid to all employees. Since the common stock holdings of officers and directors are known only as of March 18,1935, there is probably some variation from the actual stock holdings as of December 31, 1934. Therefore, the sums so paid to officers and directors are subject to any change in stock holdings between the two dates.

By referring again to their By-Law XII and the note thereto (page 18), it may be assumed that the sum payable to officers and employees, holding common stock, and that amount carried to the reserve for the Retirement and Insurance Investment Fund, a total of \$2,129,257.50, represents the 10% deducted from profits in accordance with the plan and for that year.

The one point of similarity between the plans of these three companies is that a certain percentage is deducted from the earnings of the company either before or after net profit is determined. Since the earnings of the R. J. Reynolds Tobacco Company in 1934 were \$21,563,894 as compared to \$36,674,800 in 1931 (\*), it is evident that the sums paid under the "employee profit participation plan" have been materially reduced from the high point. The share to officers and directors has apparently been further reduced by decrease in their stock holdings.

<sup>\*)</sup> See Table VI.

#### 5. Conclusion

#### (a) Return to Executives

If, in each case, Article XII of the by-laws of these companies was drawn upon the dissolution of the trust in 1911 or within a few years thereafter, the methods of computing additional compensation to executives, based on profits over and above the 1910 earnings, had much in its favor. A distinct incentive for developing additional profits was presented to the officers, and the 10% share of the additional earnings allowed to the executives, as in the case of the American Tobacco Company, then apparently represented a reasonable compensation for their services.

The tremendous development of cigarette smoking in which these three companies have had so large a part, has resulted since in such increase in their earnings that the 1910 profits are but a fraction of total profits, and their deduction, prior to determining the net earnings on which the percentages for officers' compensation are based, has become relatively immaterial. The percentages to management, 10% or otherwise, have grown to represent a much larger proportion of total earnings.

The total remuneration to executives of the Liggett & Myers Tobacco Company is not out of line with the consistent earnings and growth of the corporation. The fixed salaries are moderate for a corporation of this size, and the percentage of profits distributed in the form of other remuneration, to certain of its chief executives, is not excessive. This conclusion is based upon remuneration to its principal officers as shown in the records of the Federal Trade Commission for the period ending 1932. As previously stated, 1934 information from the Securities and Exchange Commission is not available.

The method of payment to the directors and officers of the R. J. Reynolds Tobacco Company has several unusual provisions.

- l. No director, official or other employee can participate in the "employee profit participation" plan unless he is the owner of common (voting) stock, and the participation is directly proportional to the stock owned. The incentive, i.e., to buy or add to stock holdings, is excellent.
  - 2. The "employee profit participation" plan is open to all employees. It is estimated that employees other than directors and officers now hold (January 1936) approximately 382,000 shares of common voting stock, distributed among 1,800 stock holders. Employees also have beneficial interest in 200,000 shares in the Retirement and Insurance Investment Fund. These, together, represent 58.2% of all common voting stock. This opportunity to own stock and

participate in profits is of decided advantage to all employees who can avail themselves of its privileges; and to the company.

3. The fixed salaries of the five highest paid executives as shown in the files of the Securities and Exchange Commission for the year 1934, total \$199,000. As in the case of Liggett & Myers Tobacco Company, these fixed salaries are without question moderate for the responsibilities of management resting upon the shoulders of these executives.

In the case of the American Tobacco Company (as previously mentioned), there has been a readjustment in this compensation to management although the By-Law XII itself remains unchanged. A far simpler method of readjusting this would have been to reduce the percentage of earnings applicable to the remuneration of officers.

There is no question that management is entitled to fair compensation for its services. Individuals whose skill in management is primarily responsible for the remarkable financial success of these companies deserve liberal rewards. Based on any such rate of earnings as that of 1928 to 1931, the present method of executive profit-sharing as outlined in By-Law XII of all three companies is not, in all instances, equitable to stockholders. Giving full weight to the excellent showing of earnings during that period, it is still evident that the share of profits paid some officials is a reproach to management.

By-Law XII was originally drawn to develop incentive in management. The profits at the peak and at the present time are so much larger than those on which these methods of profit sharing by management were based that it cannot be determined to what degree incentive still remains. There is a wide difference between "other remuneration", or additional compensation or profit-sharing beyond fixed salary and based on profits; and excessive returns to officials that points toward a greater interest in personal profits than in corporation earnings.

The present size of these three corporations would ordinarily prevent the ownership by younger men in responsible positions of considerable amounts of company securities. No such holding is essential for profit participation in the American Tobacco Company or the Liggett & Myers Tobacco Company, nor should the lack of it prevent executive remuneration in direct proportion to accomplishment.

#### (b) Non-Voting Stock

Two of these three corporations have evidently passed beyond the stage where non-voting stock has bearing on management control. It is possible, but highly improbable, that the third has not. Whatever the original motives for

issuing stock of this character (in the case of the R. J. Reynolds Tobacco Company the profit participation plan has direct bearing), the question is naturally raised concerning the elimination of the non-voting restriction on all stock.

#### (c) Character of the Directorates

As the directorates are at present constituted, the directors of these corporations, insofar as they pass upon the acts of the officers, pass upon their own acts, and their decisions therefore represent the policies of the controlling executives.

The first step, evidently, is a readjustment in the directorates. The Boards might be enlarged to permit membership thereon by stockholders not otherwise associated with management, or in some instances, minor officials, now board members, might be replaced by such stock holders. To these direct representatives of ownership, definite responsibility, possibly along the lines of the British Companies Act as defined by Ripley, should be assigned.

It was not until 1933 that these three companies felt the impact of the depression. Since that time, profits have been smaller; social responsibility to agriculture and to labor, and other charges, have increased costs. The joint competitive position of these three companies in the tobacco manufacturing industry has not improved.

A wise management, facing problems of greater responsibility and of decided social import, will of its own accord seek the cooperation and assistance of ownership. In the period that this study has been in process, the interest and keen appreciation of management in these problems has been sometimes evident. The large corporation is an integral part of American industrial life. It bears upon its shoulders the same dual burden existing in every component part of the national structure, that of recognition of present social responsibility, and adjustment to its needs and demands.

#### E. CIGARETTE SELLING PRICES AND POLICIES

#### 1. Preliminary

The American Tobacco Company (Lucky Strike), Liggett & Myers Tobacco Company (Chesterfield), and the R. J. Reynolds Tobacco Company (Camel) have manufactured most of the small cigarettes ever since the present type of blended cigarette became standard. This section is concerned with sales policies governing these three brands and a fourth, Old Gold, manufactured by P. Lorillard Company.(\*) The competitive position of these companies in the industry; the striking adherence to the same list price with its consequent lack of price competition; the large empenditures for publicity (\*\*) to develop consumer demand for particular brands; the relations of these companies to their various classes of distributors — all these are factors of great significance.

#### (a) Ordinary Discounts

While there are exceptions, the standard discounts are a trade discount of 10% of list and an additional discount of 2% for cash.

#### (b) Range of List Prices

Table I indicates the range of manufacturers! list prices since November 1919 as reported by Cox and Barney(\*\*\*). Comparatively frequent changes and some price variations occurred prior to 1923. For the following eight years, or until June 24, 1931, prices remained stable and approximately uniform at \$6.40 per thousand, except for the period between April 1928 and October 1929, when prices were lowered to \$6.00 per thousand. Since 1928, these four brands have been sold at the same list, changes in price by these four concerns being practically simultaneous.

<sup>(\*)</sup> The popular brands discussed herein are designated for excise purposes by the Internal Revenue Bureau as "small cigarettes weighing not more than three pounds per thousand". Small cigarettes are subject to an excise of \$3.00 per thousand. The other well known brands, including Philip Morris, mentholated cigarettes and the ten cent brands, are in this same excise classification.

<sup>(\*\*)</sup> See Chapter VI, Distribution, Advertising.

<sup>(\*\*\*) &</sup>quot;Competition in the American Tobacco Industry" by Reavis Cox, Columbia University Press, 1933. Chas. D. Barney & Co., New York City, "The Tobacco Industry", 10th Edition, 1934.

In June of 1931, the list for small cigarettes was increased from \$6.40 to \$6.85 per thousand. This price increase will remain as one of the most significant steps ever taken by the manufacturers in the history of the cigarette industry. Consideration must be given to the fact that this increase of  $45\phi$  per thousand was made in a period of low labor costs and when leaf tobacco was at its lowest price since the war.

TABLE I
CIGARETTE PRICES

Date		Manufactur	ers! List Prices a
		<u>b</u> /	<u>c</u> /
November	1919	\$8.20 <u>d</u> /	\$8.00
December	1919	8.00	one one and
December	1921	7.75	7.50
January	1922	7.50	distributed from the control of the
March	1922	6.80	6.80
August	1922	. 6.20 <u>e</u> /	
October	1922	5.80 e/	6.40
August	1923	6 <b>.</b> 45	<del>(</del>
April	1928	6.00	6.00
October	1929	6.40	6.40
June	1931	6.85	6,85
Janua.ry	1933	and and find	6.00
February	1933	gang prof sang	<b>5.</b> 50 ·
January	1934	quel Etté grap	6.10

Moreover, the full impact of the depression was becoming most pronounced. In view of declining costs and decreasing consumer buying power, a general decrease in list prices might well have been expected under conditions of free competition.

Production figures of the Big Three indicate that they had maintained a percentage of approximately 91% of the total production of small cigarettes for the years of 1928, 1929, and 1930. It is evident that

a Includes excise of \$3.00 per thousand.

b/ Compiled from data provided by the American Tobacco Company as reported by Reavis Cox "Competition in the American Tobacco Industry", Columbia University Press, 1935, page 199.

c/ Chas. D. Barney and Company, New York City, "The Tobacco Industry", 10th edition, 1934, page 26.

d Special allowance of 20% given in addition to the usual 10% and 2%.

e/ Prices quoted net subject to 2% discount for cash in ten days.

the manufacturers felt confident that they could maintain their joint competitive position at these higher prices in spite of the continuing downward spiral of the depression. That this percentage (91%) would be continued at the higher price levels is an assumption of at least semi-monopolistic market control.

A further examination of Table I shows that the price of \$6.85 per thousand remained unchanged until January 1933 when the list was lowered to \$6.00 per thousand. This decrease was almost immediately followed (February 1933) by a further cut to \$5.50 per thousand. This was the lowest list price since the war or since the excise on small cigarettes had been raised to \$3.00 per thousand.

The underlying causes for these two sharp breaks in list prices are obvious. At the close of 1932, after a period of eighteen months, it was evident that the Big Three had failed to maintain their competitive position in the industry. In 1932, the Big Three produced only 81.4% of the total small cigarettes manufactured, this comparing with 91%, the average for the three years prior to 1931 when the price was raised to \$6.85 per thousand. A still shrinking pocketbook was refused the high retail prices.

Six other manufacturers produced 17.9 billions of small cigarettes in 1932, amounting to 16.8% of the total production for the year as compared to 8.2% for 1930. Large increases in production of the ten cent brands (\*) and in roll-your-own cigarettes indicated that the depression-ridden consumer had shifted to more economical forms of smoking. The high prices permitted also some expansion of mentholated cigarette sales of other blends of small cigarettes, particularly the Phillip Morris and the Raleigh. The low list price of \$5.50 per thousand was a definite attempt by the Big Three and P. Lorillard Company to regain their former proportion of the business. Retail prices broke to the lowest level in years.

(\*) No statistics have been obtained showing the definite amount of ten cent cigarettes manufactured.

High prices for the standard brands, cheap tobacco leaf and low wage rates were responsible for its rapid growth, particularly during the period under discussion.

The ten cent cigarette, of course, would not be justified if unable to absorb the additional wage cost under the code and since its termination. During 1934 and 1935, the processing tax and the high cost of tobacco leaf, particularly Flue-Cured, together with the excise of \$3.00 per thousand, the same as for all small cigarettes, forced almost all manufacturers of ten cent cigarettes to incur loss on this product. The elimination of the processing tax and the lower price paid for tobacco leaf in the fall and winter of 1935 will again place the manufacturer of the ten cent cigarette on a profitable basis. See Chapter "The Contribution of the Tobacco Industry to National Income Through Tax Revenue".

In January 1934, the list price of Lucky Strike, Chesterfield, Camel and Old Gold was raised to \$6.10 per thousand where it has since remained. The 1933 earnings had shown extremely heavy shrinkage; wage levels had increased due to the President's Reemployment Agreement; processing taxes had been added; the cost of tobacco leaf was decidedly higher. Further, the year and a half of low prices had aided but little in increasing the share of the Big Three in the total number of small cigarettes manufactured, (in 1933, their share was 83.9%; in 1932, 81.4%). It was evident, also, that higher leaf cost and processing taxes would practically wipe out any margin of profit in the manufacture of the ten cent cigarettes and expensive promotional campaigns for these brands would be out of the question(\*).

## 2. Character of Competition.

The habit-forming characteristic of the product, the relatively slight differences in tobacco blends, and the same list price — all point toward a form of competition between these companies of which price competition is not a part. Were it not for the special allowances later discussed, the statement could be made that competition is not on a price basis. That there is competition of the sharpest character among the brands of the large manufacturers, there can be no question. It consists in the direct effort by each manufacturer to secure a larger share of the cigarette market by the use of various publicity channels.

# 3. Channels of Distribution. (\*\*)

As mass distribution developed from mass production, the manufacturers whose principal channels of distribution had been tobacco, drug and grocer jobbers, began to sell direct to the large department stores, retail chains and other large retailers. The fact that tobacco manufacturers sold these retail accounts at the same discounts of 10% and 2% given to wholesalers, decidedly complicated the wholesalers problem, since the gross margin allowed to the direct retail buyer represented the combined gross margins of wholesaler, of the sub-jobber, and, in part only, of the retailer. This step also transferred to the manufacturer the choicer volume and credit accounts.

# 4. Special Discounts and Allowances.

In addition to the problems resulting from these two distinct types of direct buyers, there is a further complication. The manufacturers—and by no means limited to the Big Three—have made and are still making special "secret" allowances over and above the standard discounts. This subject merits close scrutiny.

#### (a) Definition

As used by the Federal Trade Commission and in this report, apecial allowances and discounts are defined as all those forms of discounts, exclusive of cash discounts, which are not

<sup>(\*)</sup> Processing taxes were probably a heavier burden on some manufacturers of ten cent cigarettes than on the Big Three, because of the larger proportion of Burley tobacco in the ten cent cigarette. Burley bore a heavier processing tax than Bright Flue-Cured during most of the processing tax period.

<sup>(\*\*)</sup> See Chapter VI, Distribution. 19691

shown by the manufacturers on the face of their regular invoice, but which are subsequently paid or allowed by them to chain stores, wholesalers or other outlets.

#### (b) Their General Characteristics

All such price concessions may be divided into three general categories: (1) volume or quantity; (2) advertising and promotional; (3) all others. Variations in types of allowances extend from ordinary discounts increasing with volume purchase to straight cash refunds for which no explanation need be given.

#### (c) Their Extent

In a study made by the Federal Trade Commission, several hundred reports were secured from manufacturers of tobacco products, groceries, and drugs, covering their sales and allowances to a large number of selected distributors for the years of 1929 and 1930. Of the 134 manufacturers reporting, 89 gave allowances in 1929 and 94 in 1930. More manufacturers made allowances to chains than to wholesalers and the proportion of chain accounts receiving allowances was far greater than in the case of wholesalers. 32.5% of the chains received allowances from manufacturers as against 16% of the tobacco wholesalers.

Almost without exception, tobacco wholesalers (\*) carry other lines. The manufacturers of many of the other items ordinarily allow larger discounts and give special allowances representing far higher percentages on their sales to wholesalers than those allowed by the tobacco manufacturers, and the same cut price story, both wholesale and retail, has followed in their instance. Without question, the practices of manufacturers of these other products have complicated the problems of the tobacco manufacturers.

Referring again to the study made by the Federal Trade Commission, the total allowances by all tobacco manufacturers making allowances to chain stores in 1930, represented only 2.135 of their sales to these chains. While the percentage to total sales is relatively insignificant, the practices that have developed therefrom are far more serious than the percentage would indicate. There is no question that a considerable part of these total allowances to chains are given to a small number of large chains, furnishing a further pretext for the use of tobacco products, principally cigarettes, as loss leaders.

<sup>(\*)</sup> Ordinarily classified as those for whom tobacco products represent more than 50% of total sales.

The data from the Federal Trade Commission is based on 1929 and 1930. That these same allowances are still in use is indicated by the textimony presented before the Special Congressional Committee on the Investigation of the American Retail Federation on the question of the extent of special allowances made by the manufacturers of tobacco products, one large drug chain was shown to have received special allowances from twenty of the largest manufacturers of tobacco products (\*).

Most of the large cigarette manufacturers gave this drug chain 5% in special allowances for displays. One manufacturer paid \$25,00 per store making window displays for one week; another paid the chain \$3,300 per month. Special allowances on cigars ranged from 2% to 7% and one manufacturer paid this drug chain \$25.00 per store for making a window display for one week. One large cigarette manufacturer paid a grocery chain \$1.00 per store per month for seven months in 1934, an amount computed to be in excess of \$100,000 (\*\*). Special discounts for the introduction of new brands were common.

In this connection it is interesting to note that the same sources reported that both the drug chain and the grocery chain received allowances in excess of their direct advertising outlay. However, it must not be considered that these chains limited their promotional activities to paid advertising space in outside media. Their counter and window displays in practically all cases were considered valuable advertising space.

While, as already mentioned, the special allowances to the wholesalers are much less in amount than to the chains, a field study in December, 1935, by this Unit, covering certain metropolitan centers, discloses the methods used by tobacoo manufacturers with the wholesale trade, particularly the tobacco wholesalers. The following illustration was picked at random in a large metropolitan center (\*\*\*).

One tobacco wholesaler was allowing a large retailer 10% and 2% discounts, presumably the total discounts from list given this wholesaler by a manufacturer. It may safely be assumed that this wholesaler did not pass on these discounts without other compensation in some form of special allowances from the manufacturer. Competition

<sup>(\*)</sup> Hearings before the Special Committee on Investigation of the American Retail Federation, House of Representatives, Seventy-Fourth Congress, First Session, Vol. No. 2, July 31, August 8-9, 1935, pp. 75-80.

<sup>(\*\*)</sup> Remarks of Hon. Wright Patman, Congressional Record, 74th Congress, First Session, July 29, 1936.

<sup>(\*\*\*)</sup> Data on file in Tobacco Unit. NRA Files.

is such among the manufacturers that if one manufacturer makes a special arrangement of this character, it is highly probable others will follow and at once. The effect on other wholesalers is demoralizing.

In connection with a campaign of this sort, special allowances, ordinarily taking the form of free cigarettes, are made by the manufacturer direct to some of the larger retailers who buy through wholesalers. The chain stores also receive allowances of this character, whatever their channel of purchase of tobacco products. With these special allowances to a small list of large retailers, it is enevitable that some retailer will cut prices using cigarettes as a loss leader. The final step, of course, is a spread of the cut price. This is exactly what happened in the metropolitan center from which the illustration is taken. Small retailers without the advantage of special discounts or the free cigarettes are forced to do business at a loss or quit.

This subject receives further attention in the Chapter on Distribution and in particular under the heading of "Advertising". It is enough to point out the responsibility of the manufacturers in breaking down standards of distribution and profits of distributors both wholesale and retail.

These policies as exemplified by the tobacco manufacturers find their counterpart in many other industries. The tobacco manufacturers are by no means alone in continuing methods and practices that place a heavy burden on channels of distribution. Because the tobacco manufacturing industry has shown such rapid growth and large profits and has also been built upon the direct development of consumer demand, it has paid little attention thus far to the economic position of the wholesalers and retailers, a group essential for the proper distribution of tobacco products.

Both wholesalers and retailers, in talking about their problems, have generally stated their belief that these trade practices of the manufacturers are primarily responsible for their troubles and have evidences a decided lack of good will toward the manufacturers on this account (\*). This lack of good will is, without question, in part responsible for the loss in competitive position of the large manufacturers.

The growing sense of social responsibility evidenced by industry in general is a most significant result of the efforts to administer the National Industrial Recovery Act. The recognition by the tobacco industry, definitely

<sup>(\*)</sup> From field study by this Unit, data on file. NRA Industries Studies Files.
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including the three largest corporations, of its responsibility to labor has been elsewhere discussed. (Chapter II) There is no doubt that a similar social responsibility toward distribution must be recognized. Further economic research is required so that the problems and inequalities of distribution may be clearly presented. If the large manufacturers have the vision to see the benefits that will accrue to themselves by the elimination of the friction they have created with the distributors, such a program of research will originate with them. Recognition of social responsibility, primarily to the national economy, will not permit further avoidance of this major problem.

#### F. PRODUCTION

Due to changes in methods of compilation by the Bureau of Internal Revenue, Treasury Department, and the necessity for grouping certain information to prevent disclosure of the operations of individual companies, yearly comparisons of all types of manufactured tobacco, cigarettes and cigars cannot be made for extended periods (\*).

In the chewing tobacco manufacturing industry, production has declined from 148,400,000 pounds in 1931 to 115,500,000 pounds in 1934.

During these same years, the total of smoking tobacco manufactured increased 5.5% -- from 135,000,000 pounds to 193,000,000 pounds. One group of manufacturers dropped from 79.1% to 64.6%. Coincidentally, a second group of manufacturers increased their percentage from 14.5% in 1931 to 29.1% in 1934, an increase of 111.6%; the balance of the industry showed practically no change (6.4% to 3.3%).

Interesting changes have taken place in the geographical location of factories producing small disparettes, and in the percentage of production in various states. Table II following shows a marked increase in production in three states, North Carolina, Virginia and Kentucky, with little change in the number of factories in business in those states. The percentage of total production of small disparettes in those states jumped from 61.92% in 1920 to 92.52% in 1934. New York state shows the heaviest loss in this same period.

Generally, the concentration in Virginia and North Carolina represents a grouping of the more important manufacturers who use a large amount of Bright Flue-Cured tobacco in their products; similarly, Kentucky production is based primarily on large use of Burley, grown in that area.

The economic and social problems based upon the manufacture of tobacco products, other than cigars, are localized, and to a large extent bound up with the economic industrial prosperity of the South Atlantic states and Kentucky.

<sup>(\*)</sup> See Appendix 1, Tables 1 and 2.

TABLE II

Number of Factories in Business on January 1st, and the Percent of Total Production of SMALL CIGARETTES produced in the states leading in menufacture, for the selected years of 1934, 1930 and 1920. (\*)

,	1934	1930	1920
Number of factories in			
business on January 1			
United States	111	110	237
North Carolina	6	7	5
Virginia	7	7	8
Kentucky	3	3	1
Hew Jersey	Ą	3	13
Colifornia	1.2	8	4
Pennsylvania	3	9	23
New York	45	51	126
Other States	26	22	57
Percent of Total Production	1		
United States	100.00%	100.00%	100.00%
Forth Carolina	53.50	63.79	50.84
Virginia	29.45	23.50	11.06
Kentucky	9.47	3,58	.02
Yew Jersey	3.89	4.21	6.60
California	2.74	3.86	2.40
Pennsylvania	•59	•05	4.03
New York	.22	•95	22.83
Other States	•04	.06	2.22

#### G. ASSETS ATD EARLINGS OF THE BIG THREE

#### 1. Capital Invested

The capital invested in the Big Three companies has shown a tremendous increase since the trust dissolution decree of the Supreme Court in 1911 against the old American Tobacco Company, of which these companies were a part. Table III following, shows the capital funds invested by the Big Three.

<sup>(\*)</sup> Source: Annual Reports of the Commissioner of Internal Revenue.

#### TABLE III (\*)

#### Capital Funds Invested

Company	Dec. 31, 1912	Dec. 31, 1934	Percent of Increase
American Tobacco Company Liggett & Myers Tobacco Co. R. J. Reynolds Tobacco Co.	\$138,392,000 73,130,000 15,844,000	\$277,518,000 211,193,000 149,931,000	1.00.5 188.8 846.3
Total	\$227,366,000	\$633,642,000	180.9

Capital Funds are here defined as the amount of capital stock issued at par value plus accumulated profits retained in the business and funded indebtedness: they are equivalent to the net assets of the communies, plus funded indebtedness.

As evidenced in the above table, the capital funds invested in the three companies combined as of December 31, 1934 show an increase of 180.9% as compared to December 31, 1912, the year following the decree.

There exists among the individual companies a wide difference in the percentage of increase in capital funds invested. Although the R. J. Revnolds Tobacco Company shows a remarkable rate of increase, this company still ranks last, as of December 31, 1954, in the amount of capital funds invested.

#### 2. Earnings

Table IV presents the total amount of income available for dividends beginning with the calendar year 1912 and ending December 31, 1934, a period of 23 years.

# TABLE IV (\*\*)

#### Total Income Available for Dividends 1912 - 1934

Company	Amount	Percent of Total Income
American Tobacco Company Liggett & Myers Tobacco Co. R. J. Reynolds Tobacco Company	\$493,676,461 302,337,203 444,767,817	40.03 24.27 35.70
Together	\$1,245,781,481	100.00

<sup>(\*)</sup> Source: Standard Corporation records and Hoody's Manual.

<sup>(\*\*)</sup> Source: Same as for Table III.

This large sum of one and one-quarter billion dollars of net earnings available for dividends was uninterruptedly accumulated over the twenty-three year period without one single year recording a loss either for the three companies combined or for any single one of the individual companies. The average annual earnings for the Big Three over this period exceeded \$54,000,000. In three years of this period, 1930, 1931 and 1932, the net earnings exceeded one hundred million dollars annually.

The Big Three recorded net earnings of \$25,513,103 for the year 1912, reached their low point in 1914 with earnings of only \$19,942,924, registered their peak in 1931 with total earnings of \$105,707,939 and closed this 23 year period with net earnings for 1934 amounting to \$65,128,138. Table V sets forth corresponding information on earnings for each of the three companies.

TABLE V (\*) Earnings

	Am. Tob. Co.	Liggett & Myers	R. J. Reynolds
Net earnings for 1912	\$15,443,960	\$ 7,169,186	<b>\$2,</b> 899,957
Lowest Annual Earnings 1912-1934	(1915) 11,234,582	(1914) 5,391,174	(1913) <b>2,</b> 862,567
Highest Annual Earnings 1912-1934	(1931) 46,189,741	(1930) 24,002,315	(1931) 36,674,800
Net Earnings for 1934 Average annual earnings	23,504,554	20,086,690	21,536,894
1912-1934	21,681,535	13,145,096	19,337,731

From these figures, it will be observed that although the American Tobacco Company ranks first in average annual earnings, the other two companies have materially improved their relative position as compared to the year 1912, with the net earnings of the R. J. Reynolds Tobacco Company showing a remarkable increase. It is also interesting to note how closely the earnings of the three companies parallel each for the year 1934.

#### 3. Disposition of Net Earnings

Table VI, next presented, shows the disposition made by the Big Three of the net income available for dividends for the 23 year period, 1912 to 1924 as indicated by the compilations of Moody's Manual and Standard Corporation Records:

<sup>(\*)</sup> Source: See Table III & IV.

#### TABLE VI (\*)

# DISPOSITION OF NET INCOME AVAILABLE FOR DIVIDENDS

#### 1912 - 1934

Company .	Vet Income Available for <u>Dividends</u>	Sash Dividen <u>Amount</u>	ds Paid Per <u>Cent</u>	Retained in noon (** Amount	
American Tobacco	\$498,676,431	\$405,557,180	31.33	\$ 93,119,281	18.67
Liggett & livers Tob. Co.	302, 337, 203	208,769,295	39.05	93,567,908	30.95
R. J. Reynolds Tob. Co.	444,767,817	318,657,500	71.65	126,110,317	23.35
Together	\$1,245,731,481	\$932,983,975	74.89	\$312,797,506	25.11

The three companies as a group, distributed three-fourths of their income in cash dividends and retained one-fourth in the business. The American Tobacco Company has distributed the largest percentage of its net income in cash dividends. Although the R. J. Reynolas Tobacco Company has retained in the business the largest amount of income, its dividend policy has been slightly more liberal than that of the Liggett & Livers Tobacco Company. Of the total of \$932,983,975 of cash dividends paid during this period, \$812,281,723 was paid on common stock issues or slightly more than 87% of the total dividends paid. The amount of net income retained in the business, while only one-fourth of the net income earned, is nevertheless a sizable amount, and of decided significance when considered in relation to the amount of capital stock issued and paid in. The accumulated earnings from January 1, 1912, to December 31, 1934 retained in the business by the Bir Three amounted to slightly more than the entire capital stock equity paid in at December 31, 1934 plus the surplus existing at the beginning of the period, January 1, 1912. (\*\*\*)

This indicates the entent to which these three companies have gone in financing their business out of net earnings rather than through the sale of capital stock. The American Tobacco Company, due to its large net worth (\$133,037,148) in 1912, shows a much lover percentage when compared to the two other companies. The R. J. Reynolds Tobacco Cempany, with accumulated earnings retained in the business during this 23 year period amounting to more than five and one-quarter times their capital stock equity paid in (end of 1934) plus their existing surplus as of January 1, 1912, furnishes an excellent illustration of the extent to which some companies have relied upon the retention of net earnings, in financing expansion.

<sup>(\*)</sup> For Source, see Table III, page 34

<sup>(\*\*)</sup> Either capitalized by issuance of stock or credited to surplus.

<sup>(\*\*\*)</sup> For Source, see Table III, page 34

#### H. ASSETS AND EARNINGS OF THE TOBACCO INDUSTRY

This section is based on data contained in the published reports of the Commissioner of Internal Revenue. The interpretation of this information is subject to certain limitations set forth in a letter from the Treasury Department, dated January 27, 1936, and which appears in part as Table 2, Appendix 2 of this study. It is suggested also that prior to further reading of this section, Table 1 of Appendix 2 be examined.

While it must be noted that this information is based on reports from corporations only, it may be stated that for all practical purposes, the corporations represent the entire tobacco manufacturing industry; the amount of business transacted by individuals as distinct from corporations is insignificant and affects but slightly the total figures. (\*)

The total assets of corporations whose principal line of business is tobacco manufacturing is in excess of one billion dollars. Figures for four years are shown below:

Year :	Number of Corporations	:	Total Assets	
	001;/012010110	- <u>-</u> -	100al Accord	
1930	351		\$1,195,940,801	
1931	318		1,171,429,041	
1932	336		1,106,217,695	
1933	. 351		1,033,724,283	
				•

It will be noted that the total assets show steady reduction for each year after 1930. This decline in the amount of aggregate assets is, no doubt, principally due to sustained dividend payments.

Table VII following indicates the volume of business done by all corporations in the tobacco manufacturing industry, 1926 to 1933 inclusive, and the trend of sales during this period (1926 -- Index, 100).

TABLE VII(\*)

	: Number of	•	:		:	Statutory
Year	: Corporations	: Net Sales	:	Index	:	Net Income
1926	497	\$1,134,762,192		100.0		\$115,108,720
1927	430	1,171,095,621		103.2		122,299,922
1928	419	1,179,897,428		103.9		119,530,648
1929	420	1,247,033,708		109.9		127,740,109
1930	392	1,147,464,549		101.1		137,133,598
1931	366	1,163,706,245		102.6		136,887,408
1932	370	1,023,155,136		90.2		133,247,921
1933	383	924,085,116		81.4		50,331,561

(\*) The total receipts from individuals engaged in tobacco manufacturing, reporting for 1933 net income of \$5,000 and over, amount to \$2,115,000, less than 1/4 of 1% of the amount reported by corporations for that year.

(\*) Based on compilations of the Bureau of Internal Revenue.

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These sales are net sales by manufacturers. The relatively small charge in volume of sales, particularly when cigarette prices in 1932 and 1933 are considered, warrants the conclusion that cigarettes and other tobacco products are no longer in the luxury class. This is strikingly represented later in this chapter when comparisons are made between the tobacco manufacturing industry and certain other selected groups.

It should also be noted before passing this table that the number of corporations actively engaged in this industry in 1933 was 20% less than in 1926. The industry is still continuing the process of concentration.

Table VIII following shows the division of the total sales of the industry as between those corporation reporting statutory net incomes (\*) and those corporations reporting deficits in their income tax returns.

#### TABLE VIII (\*)

:				NET SALES	OF CORPOR	ATIONS	REPORT	ING	
:	S	tatutor	y N	let Income				ry Net Defic	
		-						:	
Year:	No.:	tions	:	Amount	:Sales:	No.:	tions	: Amount	: Sales
:	:		:		:	:		:	:
1926:	289:	58.15	:\$	1,101,162	568:97.04:	208:	41.85	:\$33,599,561	: 2.96
1927:	261:	60.70	:	1,149,055	,860:98.12:	169:	39.30	: 22,037,761	: 1.88
1928:	238:	56.80	:	1,161,493	653:98.52:	181:	43.20	: 17,403,775	: 1.48
1929:	243:	57.86	:	1,202,648	,288:96.44:	177:	42.14	: 44,385,420	3.56
1930:	195:	49.74	:	1,078,187	,181:93.96:	197:	50.26	: 69,277,368	3: 6.04
1931:	155:	42.35	:	1,072,199	,623:92.14:	211:	57.65	: 91,506,622	2: 7.86
1932:	114:	30.81	:	963,126	,649:94.13:	256:		: 60,028,517	
1933:	122:	31.85	:	819,838	493:88.72:	261:	68.15	:104,246,623	3:11.28

It will be noted that the percentage of corporations in this industry reporting statutory net income shows a decrease of approximately 42% in 1933 as compared to 1926.

It is evident that this decline in the percentage of corporations reporting profits was primarily due to the depression. While this table does not bring out this fact, it is later shown that the drop in number of corporations reporting net income was with one or two exceptions among the smaller asset classes.

The year 1932 accounts for the largest drop in ratio of corporations in this industry reporting statutory net income (the percentage for that year 30.81,, as compared to 42.35% for 1931).

<sup>(\*)</sup> See Table 2, Appendix 2. (\*) For source, see Table VII.

A further analysis is of interest: the percentages of corporations reporting statutory net income or deficits offers a most interesting comparison with the percentage in dollar volume of net sales of these corporations. Although the number of corporations reporting losses during this eight year period range from 39.3% to 69.19% of all corporations reporting, their sales ranged only from 1.48% to 11.28% of all sales made in this industry. Further, sales in this same group for 1933, showing a sales percentage of 11.28%, are far larger than for any of the prior years mentioned.

Table IX following states the statutory net income (\*) or deficit covering this eight year period for all tobacco manufacturing concerns reporting to the Bureau of Internal Revenue.

TABLE IX (\*\*)

STATUTORY NET INCOME OR DEFICIT
All Tobacco Manufacturing Corporations

	Corpo	ra-	% to	Corpora-		% to
Year	tions	Net Income	Sales	tions	Net Deficit	Sales
1926	289	\$117,365,969	10.66	208	\$2,257,249	6.72
1927	261	124,774,568	10.86	169	2,474,646	12.23
1928	238	121,677,829	10.48	181	2,147,181	12.34
1929	243	132,681,671	11.03	177	4,941,562	11.13
1930	195	143,788,111	13.34	197	6,654,513	9.61
1931	155	142,493,817	13.29	211	5,606,409	6.13
1932	114	138,398,553	14.37	256	5,150,632	8.58
1933	122	65,224,339	7.96	261	14,892,778	14.29

The relatively steady increase in income from 1926 to 1931 has taken place in spite of a drop of more than 325 in the number of corporations showing net income. The surprisingly small decrease in net income for 1931, 1932 and the heavy drop in 1933 are explainable only after consideration of the sales policies of the large corporations. (\*\*\*)

In 1926, 497 corporations reported to the Bureau of Internal Revenue showing either net income or net deficit. In 1933 the number dropped to 383. This is at least a partial indication of continued concentration of tobacco manufacturing among a smaller number of corporations.

In the year of 1932, 114 corporations, approximately 60% less than in the year 1926, reported statutory net income of \$138,398,553, or 17.9% more than for 1926. This also indicates that the profits of the tobacco manufacturing industry are showing similar concentration among a smaller number of corporations.

<sup>(\*)</sup> For definition, see Appendix 2, Table 2, paragraph 7 (b).

<sup>(\*\*)</sup> See Appendix 2, table 1.

<sup>(\*\*\*)</sup> See this Chapter, Section E, Cigarette Selling Prices and Policies.

Further reference to Table 1 of Appendix 2 is suggested for a comparison of cash dividends paid by all corporations whose principal line of business is tobacco manufacturing, with the dividends paid by various groups therein shown.

The cash dividends haid during this eight year period aggregate \$708,555,600, or an annual average of \$88,569,450. It is further of interest to note the increasing amount for each dividends paid since 1926, and particularly the large sums haid during the depression period, a considerable portion of which has come from surplus rather than earnings.

## I. INDUSTRY COMPARISONS

This section of the study is concerned with certain comparisons of the tobacco manufacturing industry to all manufacturing industries and also to selected manufacturing groups as classified by the Bureau of Internal Revenue. The facts given herein have been prepared from data compiled by that Bureau, and apply to corporations only.

Table X, following, shows a comparison of the trends for the eight year period 1926 to 1933 inclusive, covering the above groups.

It will be noted that the topacco industry reached its peak in dollar volume of sales in 1929, as did all corporations in all manufacturing groups and also the selected groups.

Of particular interest is the rate of decline in sales from 1929 to 1933. The net sales of all corporations in the United States in all manufacturing groups, for the year 1933, showed a decline of 52.9% in dollar volume from the peak year of 1929. In comparing the net sales of tobacco manufacturing corporations for this same period, it will be noted that the decline was by no means as drastic, the sales for 1933 showing a reduction of only 25.96% from 1929. In other words, the decline in sales of all corporations in the tobacco manufacturing group as between these years was approximately one-hald that suffered by all manufacturing corporations.

(1926 # INDEX OF 100.0) INDEX NUMBERS SHOWING LET SAISS FREND FOR ALL HORPORATIONS IN ALL HANDFACTURED GRUDS COMBINED AND IN CERTAIN SELECTED MANDFACTURING CROUPS FOR THE YEARS 1926 to 1933, INCLUSIVE. (1926 to INDEX OF

All Corporations in:	1926	1927	1928	1929	1930	1931	1932	1933
All manufacturing groups in U.S.	100	101.8	107.5	115.7	94.0	70.1	48.9	54.5
Selected manufacturing oroups: TOBACCO PRODUCTS	100	103.2	103.9	109.9	101.1	102.6	90.2	81.4
Food products and beverages	100	103.1	105.9	9.601	9.76	76.0	58.1	62 39
Textiles and their products	100	100.7	101.1	106.4	85.9	68.4	49.7	59.5
Chemicals and allied products	100	109.6	117.7	125.7	120.7	30.8	78.0	76.6
Motor vehicles, complete or part	ts 100	87.2	101.3	117.7	73.7	52.0	26.7	40.7
Factory machinery	100	78.5	87.2	96.5	72.4	55.2	33.5	38.2
Agricultural Mach. and equip.	100	107.3	106.4	147.9	116.5	9*29	29.8	36.6

COMPOSITE RATIOS OF HET INCOME TO HET SALES FOR LLE CORPORATIONS IN ALL MANDENLEY GENOUPS COMBINED AND IN CERTAIN SELECTED MANUFACTURING GROUPS FOR THE YEARS 1926 TO 1932, INCLUSIVE

1933	1.35	5.51	3.69 2.93 2.34 2.36 (6.00)
1932	(5.43)	13.48	.70 (7.03) (.52) (15.80) (15.58) (29.41)
1931	(1.48)	11.30	1.75 (4.52) (.92) 1.13 (4.15) (6.80)
1930	2.09	12.00	2,82 (3,99) 3,49 4,33 3,39 7,38
1929	6.13	10.20	3.29 1.91 9.02 7.70 10.33
1928	5.87	10.08	3.30 2.41 8.33 6.69 9.18
1927	5.07	10.44	2.86 3.83 4.80 7.12 12.35
1926	6.19	10.14	3.17 1.57 9.76 10.80 10.80
All Corporations in:	All manufacturing groups in U.S.	Selected Manufacturing Groups: TOBACCO PRODUCTS	Food products and beverages Textiles and their products Chemicals and allied products Lotor vehicles, complete or parts Factory machinery Agricultural Mach, and equip.

Prepared from tabulations compiled by the Bureau of Internal Revenue. Source:

Note: Figures in parenthesis indicate deficits.

In making similar comparisons to corporations in the various manufacturing groups, it will be noted that the tobacco manufacturing corporations made the most favorable showing, and by a wide margin.

The comparison in the percentage of decline as evidenced in the tobacco manufacturing industry and in the food products and beverages industry is of particular interest, since the products of each of these groups are in every-day demand by the consuming public. It will be noted that in the peak year of 1929, the sales index numbers were practically identical for the two groups. In 1933, the index numbers were 81.4 for tobacco and 62.9 for the food group, representing a decline in sales from 1929 of approximately 42% for food products as compared to 26% for tobacco products. In 1932, a larger variation in the rates of decline was shown between the net sales of these two groups.

For the purposes of comparative analysis, groups manufacturing both consumable goods and durable goods have been included. The comparison with the textile, chemical and motor vehicle groups are of decided interest. The second section of Table XI shows the ratio of net income to net sales for all corporations manufacturing tobacco products and for the same period of years, and the comparative percentages with the other corporate groups.

The ratios of net income to net sales for corporations manufacturing tobacco products are decidedly higher than those shown for all manufacturing groups for each year of this period. This same statement applies also in corresponding comparisons with the selected manufacturing groups, excepting only the two durable goods groups making factory machinery and agricultural machinery and equipment. With these two groups, this statement applies in a majority of the years.

From the percentages in this table, it is evident that the full impact of the economic collapse was felt in the year of 1932 by all corporations engaged in manufacturing, since a composite net loss ratio of 5.43% is shown to total net sales.

The six other manufacturing groups selected here for comparison also made their most unfavorable records in 1932, with one exception, chemicals. The average net loss ratio of .92% in 1931 for all corporations manufacturing chemicals and allied products was larger than that of 1932.

In contrast, it is hightly significant to note that the corporations engaged in tobacco manufacturing, when considered as a whole, entirely escaped the force of the crash until 1933. Their best showing during this eight year period was made in 1932, when net income ratio to net sales was 13.485. Their drastic decline following in 1933 was primarily due to a price war resulting from their sales policies and not from any curtailment in the consumption of tobacco products.



Whether compared with consumable goods or durable goods industries, the showing of the tobacco manufacturing group is most significant, and stands in a class by itself. This is even more striking when it is borne in mind that more than 50% of the net selling price of tobacco manufacturers represents government excise tax. The average ratios of net income to net sales would be far higher if the excise were eliminated.

Starting in 1931, the Bureau of Internal Revenue has separated corporations into various asset classes, showing for each class statistical data on assets and earnings. It is to be regretted that this most valuable information does not extend over a longer period of years. It is of inestimable value in bringing out facts on the concentration of business and of profits among the larger corporations.

Table XI following shows ratios of net income to net sales by total asset classes for the same groups given in Table X.

The situation as revealed in Table XI presents a very dark picture, due, of course, to the fact that the three years covered follow in the depression period.

The first item of interest is the improvement in ratios as the size of the corporation increases. It is impossible to state that a similar condition obtains in other than depression years; since no statistical basis for judgment is available.

The average ratios of net income for corporations in all mamufacturing groups combined, for 1932, in all the various total-assets classes, were negative, with larger deficits reported for this year than in any year of the three year period covered. Corporations manufacturing tobacco products, in the total-assets class of one million to five million dollars, recorded average net earnings for 1932 of 4.1%, and the average net income ratio for all reporting tobacco corporations in the total-assets classes of five million and over was 15% of net sales. In 1933, average earnings for all corporations manufacturing tobacco declined from 1932, while small increases in average earnings were recorded in 1933 for corporations in all manufacturing groups combined. The price war, so often mentioned, was again responsible for tobacco's showing.

It will be observed that all corporations manufacturing tobacco products made a far more favorable showing from the standpoint of average net earnings under the various total-assets classes in each year of the three year period than that shown for the average of all manufacturing corporations.

Corresponding comparisons with the other six selected manufacturing groups show some wide variations. The average net income ratios for corporations manufacturing food and beverage products and for corporations manufacturing chemical and allied products make a better showing than the average for all corporations manufacturing tobacco in most of the total asset-classes for each of the three years. This particularly applies to corporations in asset-classes of less than one million dollars, and is indicative of a greater



AVERAGE RATIOS OF NET INCOME TO NET SALES FOR ALL CORPORATIONS IN ALL MANUFACTURING GROUPS AND CERTAIN SELECTED MANUFACTURING GROUPS CLASSIFIED ACCORDING TO TOTAL-ASSETS CLASSES FOR THE YEARS 1931, 1932 and 1933.

Total-Assets Classes - Figures in Thousands of Dollars.

50 100 250 500 Under to to to to to 50 100	-5.2 - 2.3 - 1.1	-10.6 - 8.2 - 7.9 - 7.4 - 7.3 - 6.7 - 4.7 - 4.3 - 3.8 - 3.3		- 2.34 - 5.5	-7.1 - 2.76 - 1.9 - 5.4	- 2.2		- 2.7 - 1.0 .3 2.3 3.7	- 3.7 - 3.6 - 1.3 -	- 2,2 - 1,37 .1 1,0		. 4	- 7.2 - 5.1 - 5.2 - 4.9 - 5.9	1 3.8 1 3.5 1 3.8 1		- 6.44	1 5.4 1 3.5	ا	arts*	- 5.4 - 8.2 1.3	-25.4
All Corporations in:	All manufacturing groups in U.S. 1933	1932 1931	Selected manufacturing groups: TOEACCO PRODUCTS	1933	1932	1931	Food products and beverages	1933	1932	1931	Textiles and their products	1933	1932	1931	Chemicals and allied products	1933	1932	1931	Motor vehicles, complete or par	1935	1952

/ \*\* /

All Corporations in:	Under	50 100	100 to 250	250 500	500 to 1,000	1,000	5,000 and Over
Factory machinery*			4.0	1 1 0	1.5	- 2.1	7.5
1938	-21.5		19.6	-18.0	-17.2	22.5	- 6.7
Agricultural Mach. & Equip 1933		5.8	80	- 4.5	- 4.3	ES (V)	- 6.9
1932			21.5	-16.8	-31.7	-34.6	-29.9

Source: Prepared from tabulations compiled by the Bureau of Internal Javenue.

- \*) No statistics available for the year 1931.
- To conceal identity of individual corporations, ratios are not shown for the groups from one million to 5 million and from 5 million and over. All corporations in these two groups are included in the ratio shown in the group headed "500,000 to 1 million". (\*\*)

Explanation: Linus signs preceding ratios represent deficits.

degree of concentration of profits, in tobacco manufacturing, among the high asset-classes, which have recorded the best average earnings of any of the groups listed in the table.

In closing this section, a further word of caution is necessary. The report of the Bureau of Internal Revenue for 1934 is not yet available. That the ratios for these three years will be considerably changed is evident from information available from public sources. The tobacco industry has shown little change in 1934 and in 1935, while many other industries which followed the normal curve of the depression, showed considerably improved earnings during these years.



# Contents of Appendix 1

(Production)

#### TABLE FULBER

- Quantities of Chewing, Smoking and Snuff Tobacco, Cigars and Cigarettes manufactured by the Tobacco Industry in the United States, and the quantities, (and Percentages of the total), produced by selected groups of corporations. For calendar years 1926 to 1934 inclusive (2 sheets)

  Original and ten photostatic copies.
- 2 List of statements.



QUARTITIES OF CHARING, SHOLTED AND SHUPP FORACCO, CITARS AND CITARETERS
MAINTACHUED BY THE YORACCO INDUSTRY IN THE UNITED STATES, AND THE QUARTITIES.
(AND PREACEMENTS OF THE YORAL), PRODUCED IN SELECTED GROUPS OF CORPORATIONS.

(SHEET NO. 1 OF 2 SHEETS)

APPENDIX I.

CALENDAR TEARS 1934 - 1926

(POUNDS AND NUMBERS EXPRESSED IN THOUSANDS)

Prof. Commun.   Sec. 16   G. 1959   Sec. 16   Sec. 17   Sec. 16   Sec. 18	FORACCO INDUSTRI OROUPS	CLASS OF TOBACCO PRODUCTS	1934	1933	1932	1931	1930	1929	1928	1927	1926	
Part   County   Part	BACCO INDUSTRY IN U. S.:	TOBACCO (POUNDS): Plug Cheming	62,760	61,362	61,945	76,653	41Z*98	ηη <b>2°96</b>	100,646	103,918	109,766	
Particle   Charlest Phases   15,979   111,286   110,286   114,396   11,18,39		Prist Cheming Fins-Ont Cheming Scrap Cheming Triet, Fins-Ont & Scrap Cheming	5.080 2.971 1186 52,837	5,042 3,120 14,724 52,586	1,918 3,355 50,080 58,353	6.378 0.170 01.235 11.783	7,624 5,089 (A) 12,713	8,187 5,556 (4) (13,743	8,892 5,186 (A) 14,078	7,988 6,287 (A) 14,275	9,179 6,985 (A) 16,164	
### 10   19   19   19   19   19   19   19		Total - Chewing Tobacco	115,597	114,248	120,298	148,436	786,88 ( <b>A</b> )	78t, 011 (₹)	(A) 114,724	(4) 118,193	(A) 125,930	
Lange (pression shading a smart   195,556   196,113   194,779   171,271   171,716   171,720   171,721   17		Broking Smuff	193.075	191,766	190,987	182,947	(B) 232,013 40,766	(B) 229,585 41,128	(B) 229,849 41,760	(B) 236.779 41,352	(B) 245,450 39,216	
Large Clopest (Banker)  Large		Tetal - Chewing, Smeking & Smulf	345,566	342,113	347.279	371,237	371,766	381,200	386.333	396,324	410,596	
Part   Company   Part		Large Cigare (Number) Small Cigare (Number)	4.525.780 221.977	4,300.045 209,515	4.382.723	5,347,921	5.893.890	6,518,533	6,373,182	6,519,005	6,498,641 412,315	
Part Control (POTOME)   Part Prince Industry   Part Prince   Part Prin		. Large Cigarettes (Number)	88,202 129,976,334	2,846 114.874,217	3,374	5,160 117,064,214	7,367	9,952	108,705,506	11,432	13,240 92,096,974	
Part	SELECTED CORPORATIONS:	TORACCO (POUNDS): Plug Choring Par Cent. of Tobacco Industry		49,393 80,5%	50,333 81.2%	62,148 81.1\$	88.788 80.98	78.506 81.2%	83,286 82,8%	85,840 82,6%	89.999 82.0%	
Part Cont. of Polace Industry   134,655   126,155   135,156   13		(D) Twist, Fine-Cut & Scrap Cheming Per Cent. of Tobacce Industry		4.055	4,196 7.2%	5.532	(A) 5.279				160'1 (▼)	
Part Cont. of Tobacco Industry   130,656   125,392   131,566   131,567   1		Total - Chewing Tobacce Per Cent. of Tobacco Industry		53.448 46.8%	54,527 45.3%	67.680 45.64	( <b>A</b> ) 75.067				060,79 (A)	
Part Control and Smooting   Part Control and Part		Smoking Per Cent, of Tebacce Industry Smuff		128,192 66,8%	133.026	144.631 79.1%	(B) 135,448	(B) 128,568	(B) 128,665	(B) 132,898	(B) 137,008	
Lingue Cigare (Namber)		Total - Cheming and Smoking Per Cent. of Tobacco Industry (Smiff not Included)		181,640	187.553	212,311 64.1\$	210,515 63.6\$	212,922 62.6%	218,023		234,098 63.0%	
Large Cigaraties (Number)		Large Cigars (Number) Small Cigars (Number)	<u>66</u>	66				(0)	(6)	· ©	(9)	
TORRECT FOURTHS:  Per Ceart, of Tobacco Industry  (b) Frie, Industry  (c) Frie, Fine-Out & Scrap Chering  Per Ceart, of Tobacco Industry  (c) Frie, Industry  (d) Frie, Fine-Out & Scrap Chering  Per Ceart, of Tobacco Industry  (e) Frie, Industry  (f) Frie, Fine-Out & Scrap Chering  Per Ceart, of Tobacco Industry  (g) Frie, Industry  (h) Frie, Fine-Out & Scrap Chering  Per Ceart, of Tobacco Industry  (g) Frie, Industry  (h)		Large Cigarettes (Number) Small Cigarettes (Number) Per Cent. of Tobacco Industry	(c) 103,268,570 79.5%	(c) 96,397,562 83.9%				(c) 111,332,703 90.9%	(c) 99.504.497 91.5%	93.824.975 94.0%	89	
23.951         23,411         27,125         44,55         46,55         40,555         41,35         42,55         42,135	SELECTED CORPORATIONS:	TOBACCO (POUNDS): Flug Cheming Per Cent. of Tobacco Industry	8,590	8,115				13,484 13.9%	13,295	13.5%	15,845 14,45	
32.541 31.526 35.24 20.34 43.352 (a) 13.572 (b) 15.919 (a) 15.141 (a) 16.335 (a) 15.245 (b) 15.441 (a) 16.335		(D) Twist, Fine-Cut & Scrap Cheming Per Cent. of Tobacco Industry		23.411 44.34	27,125	33.657	22255 (▼)	(A) 2,435			(A) 2,744	
$\begin{array}{cccccccccccccccccccccccccccccccccccc$		Total - Chewing Tobacco Per Cent. of Tobacco Industry		31.526	35.09 28.28	43,382 29,2%	(A) 13.572	(4) 15.919			(A) 16,589	
88,656		Smoking Per Cent, of Tobacco Industry Smiff		52,253	46.356 24.35	26.518	(B) 53.59 <sup>tt</sup>	(B) 55,469			(3) 60,300	
(c) (c) (c) (c) (c) (d) (d) (e) (e) (e) (e) (e) (e) (e) (e) (e) (e		Total - Chewing & Smoking Per Cent, of Tobacco Industry		63,779 27.4≸	81,450	69.900 21.15	67.166	71,388	70.993	72.717	78.889	
(c) (c) (d) (e)		Large Cigers (Fumber) Small Cigers (Fumber)	99	99	<u>66</u>	66	99	66	<u>6</u> 6	<u></u>	66	
19.78 15.58 15.58 8.38 8.28 8.28 5.08		Large Cigarettes (Number) Small Cigarettes (Number) Per Cent. of Tobacce Industry	(c) 25.649.095 19.7\$	(c) 17,820,473 15.5\$	17.958.241 16.8%	9.708.070	10,122,938	(c) 10,002,443 8,2%	(c) 6,822,973 6,3\$	(c) 3,026,940 3.0\$	(c) 1,255,609 1,4\$	

FOOTBOTES:

- and pursua, an amount unuser - musting prior to 4724.
 - "smoting" includes "Scrap Charing" prior to 1931.
 - Included under "Balance of Inductive" to cooceal data reported and identity of corporation.
 (D) = "Frist, Mus-Cut and Scrap Chering" combined to conceal data reported and identity of corporation.

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IGARETTES	AANUFACTURED BY THE TOBACCO INDUSTRY IN THE UNITED STATES, AND THE QUARTITIES.	(AND PER-CENTAGES OF THE TOTAL), PRODUCED BY SKLECTED GROUPS OF CORPORATIONS.
e	AFE	PS
RS A	res.	3ROU
IGA	STA	ED (
, SMOKING AND SNUFF TOBACCO, CICARS AND CI	E UNITED	BY SELECT
1	且	N O
SNUT	T IN	0000
Eg.	USTR	P.
NG	E	F
SHOKI	BACCO	HE TOT
NG.	TO	E E
HEW.	FE	ES
S 6	BI	TAG
ES C	JRE	
QUANTITIES OF CHEWING, :	MANUFACT	(AND PER-

(SHKET NO, 2 OF 2 SHKETS)

APPENDIX I.

CALENDAR TEARS 1934-1926

	1926	9	(0)	(c) 37.728 96.24	1,396,664	2,798,105 43,1% (c)	840.894 12.9% (C)	3,922 3.6%	4,761 51.9% 1.568 22.4% (A)	(A) 6,329	(A) 10,251	(B) 48,142 1,488 3.8%	59.881	2,859,642 412,315 100.0%	13,240 100.04 1,708,964 1.84
	1927	(9)	(0)	(c) 39.724 96.1\$	1,502,947	2.996.817 16.0% (c)	852,941 13.0% (c)	1,073	4,008 50.3% 1,456 (4)	(A) 5,464	755.6 (4)	(B) 47,499 1,628 3.9%	58.664	2,669.247 41.05 479.419 100.09	11,432 100,004 2,957,117 3,0%
	1928	(9)	(0)	(c) 40,000 95.8%	1,578,504	3,114,686 he.9% (c)	835.877 13.1\$ (c)	1,065 1,065	4,424 1,436 1,436 1,436 1,436 (A)	(4) 5,860	9,925	(B) 45,632 1,760 4,2%	57.317 14.8%	2,422,619 36.0\$ 415,535 100.0\$	10,403 100,094 2,378,036 2,28
	1929	(9)	(0)	(c) 39,515 96,1\$	1,712,416	3,518,168	863,469 13.2% (c)	₹6° å	4,379 53.5% 1,061 19.5%	( <b>a</b> ) 5,460	(A) 10,214	(B) 145.548 1.613 3.9%	57.375	2,136,896 32.8% 419,880 100.0%	9.952 100.005 1,057.235
	1930	9	(9)	(c) 39.109 95.9\$	1,470,692	3,109,461 52.8% (c)	1,004,270	5,136	4,015 52.74 1,197 (4)	(4) 5,212	(A) 10, 348	(B) 42.971 1.657 4.1%	\$5.45 11.8%	1,780,159 363,070 100,04	7,367 100.05 1,015.207
	1971	9	(0)	(c) 38,282 96,1\$	1,428.585	2,829,049 52,9% (c)	970,077 18.1% (6)	#.780 6.2%	£833.153.3 24.152.3	32.594	35.34 35.34	11.798 6.4% 1.572 3.9%	20.7₩ 13.7%	1,546,795 29.04 338,997 100.04	5,160 100,004 1,235,839 1,136
SED IN TROUSANDS	1932	(3)	(3)	(c) 34,510 95.9\$	1,079,869	2,107,641 48,1\$ (c)	841,116 19.24 (c)	3,645	2,618 23.28 23.492 46.98	27.032	35.67	11.605 6.14 1.484 4.14	43.766 12.64	1,433,966 32.74 278.749 100.04	3.374 100.0% 1.888.979 1.8%
NUMBERS EXPRES	1933	9	(0)	(c) 34,663 96.0\$	1,101,841	2,020,030 h7.05 (c)	916,615 21.3 <b>\$</b> (c)	3.854 6.3≸	25.13 1.035	25.420 48.14	33.2 35.22	11.321 5.94 1.436 4.04	42.031 12.3%	1,343,400 31.74 209,515 100.04	2,846 100.001 656,182 64,182
(POUNDS AND	1934	(c)	(3)	(c) 35,429 96.04	1,402,334 31.0%	2,427,274 53.6\$	615,913 14.4% (c)	3,606	2. 44. 46.2% 32.9% 21.167 46.2%	24.595 46.5%	28,201 24,45	12,132 6,34 1,465 1,065	41.798 12.1%	1,446.593 32.04 221.977 100.04	88,202 100,0% 1,058,669 8%
	CLASS OF TOBACCO PRODUCTS	TOBACCO (POUNDS): Flug Chewing	Twist, Fine-Cut & Scrap Chewing	Smoking Smiff Per Cent, of Tobacce Industry	Large Cigare (Number) Per Cent. of Tobacco Industry	Large Cigare (Eumber) Per Cent, of Tobacco Industry Smell Cigars (Eumber)	Large (Rumber) Per Cent. of Tobacco Industry ) Small (igars (Rumber)	TOBACCO (POUNDS): Plug Chewing Per Cent. of Tobacco Industry	Twist Chering Per Cent. of Tobacco Industry Plue-Out Chering Per Cent. of Tobacco Industry Scrap Chering Per Cent. of Tobacco Industry Per Cent. of Tobacco Industry	Twist, Fine-Cut & Scrap Chewing Per Cent. of Tobacco Industry	Total - Chewing Tobacco Per Cent. of Tobacco Industry	Smoting For Cent. of Tobacco Industry Smif For Cent. of Tobacco Industry	Total - Chewing, Smoking & Smuff Per Cent. of Tobacco Industry	Large Cigare (Number) Per Cent, Of Tobacco Industry Small Cigare (Number) Per Cent, of Tobacco Industry	Large Cigarettee (Rumber) Per Cent. of Tobacco Industry Saall Cigarettee (Ember) Per Cent. of Tobacco Industry
	TOBACCO INDUSTRY GROUPS	SELECTED CORPORATIONS:	smoking tobacco.		SELECTED CIGAR CORPORATIONS:	SELECTED CIGAR CORPORATIONS: Group 2 - including certain members of Group 1.	SYLECTED CIGAR CORPORATIONS: Large Clgare (Number) Groun, 4 Per Cent. of Tobacce (Other than Groupe 1 & 2.) Small Cigare (Number)	BALANCE OF TOBACCO INDUSTRE:							

SOURCE - STATISTICAL RECORDS OF THE CORACCO TAX DIVISION, BURRAU OF INTERNAL REVENUE, UNITED STATES TREASURE DEPARTMENT.

FOCHNOTES: (A) - "Scrap Chewing" included under "Smoding" prior to 1931.
(B) - "Smoding" includes "Scrap Chewing" prior to 1931.
(C) - Included under "Malance of Industry" to conceal data reported and identity of corporations.

### APPENDIX 1, TABLE 2

#### BASIC FRODUCTION DATA

Following is a list of comparative statements prepared from the statistical records of the Tobacco Tax Division, Bureau of Internal Revenue, and from the Annual Reports of the Commissioner of Internal Revenue. Portions of the basic data contained in these statements have been used in preparation of certain Tables and percentages appearing in the text:

# SECTION NO. 2 (\*)

## STATEMENT NUMBER

Statements showing for the calendar years 1926 to 1934 inclusive;
Number of factories in business in January 1st,
Quantities of Tobacco, (Unstermed, stemmed, scraps, in
process, and stems), used in manufacture,
Quantities of Chewing, Smoking, and Snuff tobacco produced,
Quantities of Cigars and Cigarettes produced.

For the Tobacco Industry, and groups of selected corporations as follows:

- 1 Tobacco Industry in the United States
- 2 Group A -- Selected Corporations
- 3 Group B -- Selected Corporations
- 4 Group C -- Other Corporations
- A group consisting of cigar manufacturers
- 6 A second group of cigar manufacturers
- Inventory of Leaf Tobacco, (Unstemmed, stemmed, scraps, and stems), at beginning of year; quantities of Leaf Tobacco, (by classes), received from farmers and other sources; and the quantities exported and shipped to other sources during the calendar years 1933 and 1934, for a selected group of corporations
- 8 A third group of cigar manufacturers
- 9 A fourth group of cigar manufacturers

<sup>(\*)</sup> For purpose of identification, all original work papers were indexed by sections. Section No. 2 deals primarily with statistics of production.



#### STATEMENT NUMBER

- 10. Rates of Taxation; Amounts of Tax Collected; Quantities taxpaid for consumption; Average Quantity of yearly consumption
  Per Capita; by classes of tobacco products, (Cigarettes,
  Cigars, Chewing and Smoking Tobacco, and Snuff) also miscellaneous tobacco tax revenue, for the fiscal years ended June 30,
  1900 to 1934 inclusive.
- Production of Tobacco Products, (Small Cigarettes, Plub, Twist, Fine-Cut, and Scrap Chewing Tobacco; and Smoking Tobacco), in the United States, North Carolina, Virginia, and Kentucky; and the percent that each State's production bears to the United States, for the calendar years 1926 to 1934 inclusive.
- Production of Tobacco Products, (Plug, Twist, Fine-Cut, and Scrap Chewing Tobacco, Smoking, Snuff, Cigars and Cigarettes), in the United States, and in the ten (10) leading states in manufacture of tobacco products; and the percent that each State's production bears to the United States, for the calendar years 1926 to 1934 inclusive. (Data on Large Cigars for calendar years 1920 to 1934 inclusive)
- 13. Number of Cigar Manufacturers; aggregate number of Large Cigars produced, classified as to output; and percent of the total production in the United States, for the calendar years 1926 to 1934 inclusive.
- 14. Quantities of Leaf Tobacco, (unstemmed equivalent), used in manufacturing Cigars, Cigarettes, Tobacco and Snuff, for the calendar years 1920 to 1934 inclusive.
- Summary of operations of manufacturers of Tobacco, Cigars, and Cigarettes, showing; number of manufacturers; total production classified as to output; and percent of total, for the calendar years 1926 to 1934 inclusive.
- 16. Summary of operations of producers and dealers in Perique Tobacco, for the calendar years 1926 to 1934 inclusive.
- 17. Number of Dealers in Leaf Tobacco in Business; quantities of Leaf Tobacco exported; and quantities received from Farmers, for the calendar years 1926 to 1934 inclusive.
- Quantities of Leaf Tobacco imported by; Dealers in Leaf Tobacco, Cigar Manufacturers, and Tobacco Manufacturers, for the calendar years 1924 to 1930 inclusive.
- 19. Quantities of Leaf Tobacco, (Unstemmed, stemmed, scraps, cuttings and clippings), owned or held on January 1st by; Dealers in Leaf Tobacco, Cigar Manufacturers, and Tobacco Manufacturers, for the calendar years 1924 to 1931 inclusive.

#### SECTION NO. 4

### STATEMENT NUMBER

- Monthly quantities of manufactured Tobacco Products, (Large Cigars Classes A, B, C, D, and E, Small Cigars, Large and Small Cigarettes, Snuff and Chewing and Smoking Tobacco), tampaid for consumption, together with imports from the Philippine Islands, and Puerto Rico, for the years 1925 to 1935 inclusive.
- Quantities of manufactured Tobacco Products, (Chewing, Smoking and Snuff Tobacco, Large and Small Cigars, Large and Small Cigarettes, Perique Tobacco, scraps, cuttings, clippings, siftings, etc., Cigarette papers and tubes), exported in bond, for the fiscal years ended June 30, 1926 to 1934 inclusive.

## Contents of Appendix 2

#### (Financial)

# TABLE NUMBER

- Statement showing comparisons of Net Sales, Compiled Net Profit, Statutory Net Income and Cash Dividends paid for certain groups of Tobacco Corporations to all Tobacco Corporations reporting on Income Tax Returns for years 1926 1934 inclusive.
- 2 Letter dated Jamuary 27, 1936 (and presented in part) from Vm. H. McReynolds, Administrative Assistant to the Secretary of the Treasury. (8 pages)
- 3 Market Value, as at January 2, 1936, of the Capital Stock of the Big Three.
- 4 List of statements.

APPENDIX 2, TABLE 1.

STATEMENT SHORING COMPARISONS OF NET SALES, COMPILED NET PROFIT, STATUTORY NET INCOLE AND CASH DIVIDENDS PAID FOR CERTAIN GROUPS OF TOBACCO CORPORATIONS TO ALL TOBACCO CORPORATIONS EXPORTING OF INCOLE TAX RETURNS FOR TEARS 1926-1933

		٠							
ther tions*	Per Cent		14.70 12.45 11.67 1.67 2.65 7.68	2.7 2.5	11, 10,32 10,36 10,36 11,57 10,57 10,57		11.41 9.26 8.65 6.97 2.15 (.37)		18.97 16.57 11.22 16.99 16.03 16.03 16.03
All Other Corporations*	Anount		\$166,904,814 145,783,557 137,1486,967 138,749,060 30,491,153 8335,138	67,599,015	17,927,203 17,752,710 17,752,710 13,766,112 6,144,567 741,062 2,461,903		13,136,543 11,332 487 10,341,476 8,905,990 2,953,400 2,953,400 2,953,400 364,661 364,661 2,274,818		13,548,369 12,90,521 (1,404,219) 10,390,745 9,471,053 10,728,699 3,575,969 3,482,829
Groups gar tions	Per Cent		14.30 15.06 15.18 14.93 11.93	8,98	2.63 11.53 12.53 1.93 1.91 1.91 1.91		10.67 13.52 16.00 14.22 8.82 5.10		12.55 17.41 10.28 10.28 7.55 7.55 9.7
Selected Group of Cigar Corporations	Amount		\$162,236,752 176,401,734 178,905,583 186,146,008 162,039,451 138,862,558	82,955,084	12, 384, 387 16, 604, 086 19, 1158, 149 18, 193, 962 12, 228, 221 7, 123, 033 908, 937 1, 359, 898		12,282,089 16,530,807 19,124,158 18,162,680 12,092,138 6,981,679 6,981,378 1,049,082		5, 356, 230 9, 198, 891 11, 149, 159 9, 556, 544 8, 051, 686 5, 594, 247 4, 722, 942
Group er 10ns	Per Cent		2000 2000 500 500 500 500 500 500 500 50	3.33	6.57 7.69 7.59 6.33 6.35 13.40		7.1. 7.31 7.553 7.553 7.555 6.18 6.18 6.18 6.18		**************************************
Selected Group of ether Cerporations	Anount		\$ 33, 421,843 35, 128, 490 34, 697, 209 34, 551, 677 34, 430, 796 31, 430, 796	30,969,400	8,473,709 9,367,397 9,775,014 10,184,095 9,225,624 8,668,836 8,668,836		8,221,356 8,935,673 9,145,165 9,502,214 8,691,887 8,019,037 7,972,832		5,048,194 5,048,194 5,268,194 5,535,080 5,844,968 5,823,708 7,823,708
_ 1	at .				+10 m 6 at m o 7		N. T.		
Group B Selected General Corporations	Per Cen		9.59 10.63 11.73 12.08 12.38 78.31	16.16	45.4 18.55 1.16) 1.16) 1.16)		6.82 4.89 2.14 (.47) 5.80 9.92 (11.22)		8.4.4.4.0.4.0.0.0 8.88.8.2.4.4.4.4.4.4.4.4.4.4.4.4.4.4.4.4
Grov Selecte Corpo	Amount		\$106,768,051 124,535,654 142,463,996 1142,062,452 115,062,452 139,717,67	148,771,169	7.935.080 6.099.216 6.099.216 (2.794.877 (2.20.260) 1,015.863 8.391.944 13.696.914 13.696.914		7,843,141 5,987,309 2,558,667 (955,777) 3,608,752 7,319,954 13,213,939 13,213,939 (5,647,109)		6,075,082 2,581,882 2,465,209 2,566,302 3,566,302 5,076,196 4,172,562
Group A Selected General	Per Cent		58.58 50.78 50.78 50.78 50.78	%:74	62.65 64.85 64.85 78.85 78.99 82.99 83.17		63.96 65.02 71.84 83.28 83.28 83.28		57.93 59.20 72.66 69.45 73.68 73.76 79.75
Group Selected Corpor	Anount		\$663,430,669 689,244,186 685,343,673 741,262,744 778,440,697 761,870,987 661,870,987	593,790,448	78,459,478 84,235,031 83,011,391 96,814,014 116,116,138 120,206,143 118,630,227 55,959,445		73,625,591 79,513,646 78,360,582 91,765,902 109,77,421 114,011,961,586 44,681,986		41,407,677 13,558,488 145,534,306 64,400,695 78,671,112 78,867,945 78,868,119 74,141,813
All Cerrerations	Amount		\$1,134,762,129 1,171,093,621 1,178,897,428 1,247,033,708 1,147,464,549 1,163,700,245	1933 924,085,116 COMPLIED NET PROFIT:	125,180,357 134,055,440 138,000,037 138,597,839 147,934,644 147,534,645 145,155,008 142,645,976 63,255,199	STATITION NET INCOME:	115, 108, 720 112, 299, 922 113, 530, 648 127, 740, 109 137, 113, 598 135, 247, 921 50, 331, 471	CASH DIVIDENDS PAID:	71, h75, 552 77, 577 64, 012, 649 92, 728, 054 105, 700, 653 107, 938, 240 98, 398, 239 95, 134, 237
	Year	NET SALES	1926 1927 1928 1930 1930	1933 COMPLED I	1926 1927 1928 1929 1930 1931	STATITORY	1926 1927 1928 1930 1931 1933 1933	CASH DIVIL	1926 1927 1928 1930 1931 1933 1933

Source: Prepared by Tobacco Unit from data compiled by the Bursau of Internal Revenue.

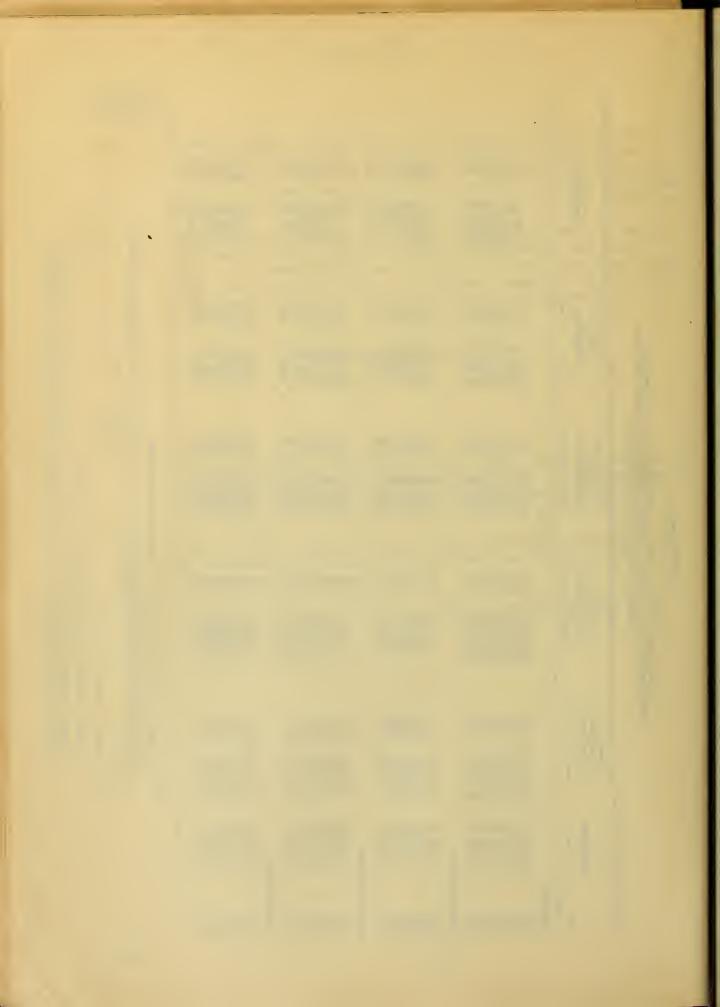
Explanetions:

Figures in parentheses indicate deficits.

Percentages ere computed in relation to the anounts for all corporations.

For general explanations and limitations of the basic data tabulated by the Bureau of Internal Revenue, it is important to see letter (presented in part) dated January 27, 1936 from Mm. H. McReynolds, Administrative Assistant to the Secretary of the Treasury, in Appendix 2, Tabla 2.

<sup>\*</sup> Figures of "All Other Corporations" obtained by deducting the total of the amounts shown for the selected groups of corporations from the total amount listed for "All Corporations".



# TABLE 2

Letter (in part) of Wm. H. McReynolds, Administrative Assistant to the Secretary of the Treasury, sent to the Tobacco Unit, in connection with material furnished by the Treasury Department, dated January 27, 1936.

#### \_\_\_ 0 \_\_\_

In reply to the letter of May 13, 1935 from Mr. Meredith B. Givens, National Recovery Administration, to Mr. George C. Haas, Director of Division of Research and Statistics, Treasury Department, requesting compilation of certain data from corporation income tax returns, tables have been prepared by representatives of the office of the National Recovery Administration from the work sheets of the Eureau of Internal Revenue.

This office has reviewed the data as shown in the tabulations submitted by you and is in accord with your request that the information be used by your organization.

The data included in the tables, in so far as they relate to corporation income tax returns, cover Section No. 1. and Section No. 3 of your memorandum dated September 18, 1935 amplifying the previous correspondence.

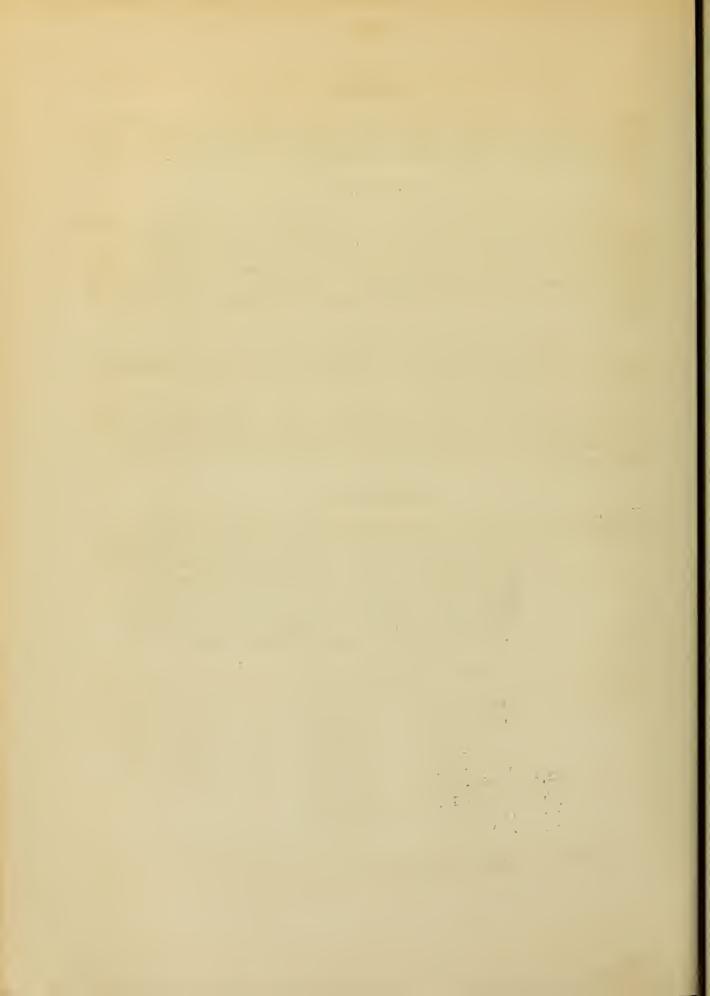
#### SECTION NO. 1

Statement No. 1 Comparison of certain items of Assets, Liabilities, Receipts, Compiled Net Profit or Deficit, Statutory Net Income or Deficit, Cash Dividends paid, Profits and Losses from sales of capital assets and the Computed Net Income or Loss from Operations, by Total Assets Classes, by returns with net income and no net income, for calendar years 1931, 1932 and 1933, for 14 selected industry groups.

By Total Assets Classes of:

Under \$50,000 - \$100,000 50,000 - \$100,000 100,000 - 250,000 250,000 - 500,000 500,000 - 5,000,000 5,000,000 - 50,000,000 10,000,000 - 50,000,000 50,000,000 - and over.

Also in aggregate for:



All Corporations with balance sheets.

All Corporations without balance sheets.

All Corporations with and without balance sheets.

Classes grouped to conceal data reported and identity of Corporations.

For Industry Groups, as follows:

Calendar years 1931, 1932 and 1933:

- 1. Food Products, including beverages.
- 2. Tobacco products.
- 3. Textiles and their products.
- 4. Chemicals and allied products.
- 5. All Industrial Groups (except Agriculture and related industries group and Finance Group)
- 6. All Manufacturing Groups.
- 7. All Industrial Groups in the United States.
- 8. Agriculture and Related Industries.
- 9. Finance: Banking, Insurance, Real Estate and Holding Companies, Stock and Bond Brokers, etc.

For Industry Groups, as follows:

Calendar years 1932 and 1933:

- 10. Motor Vehicles, complete or parts.
- 11. Factory Machinery.
- 12. Agricultural Machinery and equipment.

For Industry Groups, as follows:

Calendar Years 1933 only:

- 13. Food and kindred products.
- 14. Liquors and beverages.
- Statement No. 2 Comparison of Total Assets, and Certain items of Liabilities, Receipts, Deductions, and Cash and Stock Dividends paid, by returns with net income and no net income, and by returns with balance sheets and with and without balance sheets, for the calendar years 1926 1933 inclusive, for the 14 Industry Groups listed above.

#### SECTION NO. 3

Statement No. 1 Data covering total assets classes and combined figures transcribed from Section No. 1, Statement No. 1, for comparative study in trends and percentages, for each of the 14 industry groups listed above.

Statement No. 2 Data covering "Net income", "No net income", and combined figures transcribed from Section No. 1, Statement No. 2, for comparative study in trends and percentages, for each of the 14 industry groups listed above.

Six tables were also prepared, in accordance with your request, for groups of selected companies whose predominant business is classified as manufacturing tobacco, cigars, cigarettes and snuff, and dealers in leaf tobacco. These tables include group totals for certain items of assets and liabilities, receipts and deductions, compiled net profit or deficit, statutory net income or deficit, net loss for prior year, cash and stock dividends paid, gross profit from sales and gross profit from sales and gross profit from other operations, for the calendar year 1926 to 1933 inclusive.

## GENERAL EXPLANATIONS AND LIMITATIONS OF THE DATA

Extreme caution must be exercised in the use of the data. The definitions of the items from which ratios and percentages will be computed must be kept in mind, as well as the difficulty of a comparison over a period of years. The major changes affecting the industrial and other classifications under which the returns were tabulated, and the provisions of the revenue acts under which the returns were filed, which have occurred in the years 1926-1933, inclusive, are listed below.

- 1. The data shown in the tabulations are taken from returns as filed and prior to any revisions or adjustments that may have subsequently been made as a result of an audit by the Bureau of Internal Revenue and without any analysis or adjustment of the underlying charges and credits leading up to the figures on the returns, nor an adjustment of the data reported on the returns to a common method of accounting.
- 2. The statistics tabulated from the returns are limited to the information as reported by the taxpayer and include only the data that are available and can be definitely allocated. It frequently happens that (a) the returns are not completely filled in, or (b) if they are filled in, the information is reported in a manner which precludes the possibility of allocating items to the definite minor classifications.
  - 3. The tabulations for each year include calendar, fiscal and part year returns. The fiscal and part year returns are those for which the greater part of the period falls in that particular calendar year.
  - 4. The industrial classification is based on the predominant business of nonaffiliated corporations or of groups of affiliated corporations filing a single return. The industrial groups, therefore do not represent corporations engaged purely in the industries in which they are classified, due to the diversified industrial activities of many corporations and especially to affiliated corporations filing consolidated returns, which latter include the income, deductions,

assets and liabilities of the subsidiary corporations. If such subsidiary corporations could be segregated, many might fall in industrial divisions other than those in which they are included.

- 5. Strict comparability of the corporation income tax data from year to year is not possible. Shifts in the data in the various classifications are due, among other causes, to consolidated returns being filed for concerns formerly filing separate returns and the disintegration of groups of concerns filing consolidated returns.
- 6. Although the tables in this study do not include returns for 1934, year attention is called to the change in the industrial classification which will occur for returns for that year. By the Revenue Act of 1934, effective for taxable years beginning after December 31, 1933, the privilege of filing consolidated returns is limited to railroad corporations. In the forthcoming Statistics of Income for 1934 the consolidated returns for railroads and the consolidated returns for corporations with years ending in the period July 1, 1934 to November 30, 1934 will be classified as previously according to the predominant, business of the group of subsidiary concerns included in the consolidated return. The returns (except for railraods) for the calendar year 1934 and for fiscal years ending in the period January 31, 1935 to June 30, 1935 will be classified according to the business of each company. Although the industrial classification of returns with years beginning after December 31, 1933 should be a finer industrial distribution of the returns, it will not be a pure industrial classification, due to the diversified industrial activities of most corporations.
- 7. Changes in the provisions of the revenue acts under which the returns for given years are filed also interfere with a precise comparability of the data over a period of years. The major changes for the years of 1926 to 1933, affecting the data included in these tabulations are as follows:
  - (a) Additional rates, first imposed by the Revenue Act of 1932 are applied to the income reported in consolidated returns. These higher rates were probably influential in the reduction of the number of consolidated returns filed in 1932 and 1933.
  - (b) The statutory net income is the excess of gross income over deductions as defined by law. Losses sustained during a taxable year not compensated for by insurance or otherwise, are entirely deductible from gross income, except that for years 1932 and 1933 losses from sales or exchanges of stocks and bonds held two years or less (other than bonds issued by a government or political subdivision thereof) are allowed only to the extent of gains from such sales. This limitation on the deduction of losses for 1932 and 1933 does not apply to banks and trust companies. The net loss for prior year (resulting from the operation of any trade or business regularly carried on) which is allowed as a deduction according to law, has not been subtracted from net income in these tabulations because it was not considered a current year loss.

### Assets and Liabilities

- 8. In connection with the classification of corporation data for 1931, 1932 and 1933 by size of total assets, your attention is directed to the fact that the balance sheet form "Schedule K" of the corporation income tax return provides, in the reporting of assets, that reserves for depreciation of capital assets be deducted from the gross amount of capital assets and also that reserves for bad debts be deducted from the gross amount of accounts receivable.
- 9. All items of assets and liabilities, as well as "Total assets and/or Liabilities", represent amounts shown in the balance sheet as of the end of the taxable year.
- 10. Common and preferred stock Shifts occur between years in the amounts tabulated as "Common Stock" and "Preferred stock" due both to variations in reporting these data and to the method of tabulation. For balance sheets in which par value common and preferred stock are not reported separately and a book value is given, the amount is tabulated as common stock. For balance sheets with no par value stock and reporting book value, the procedure has been as follows: For 1926 1931, the amounts were tabulated under "Surplus and undivided profits", for 1932 and 1933, the amounts of no par value common stock and preferred stock were tabulated under "Common stock" and "Preferred stock" respectively. For balance sheets with no par value stock and not reporting book value, the net worth was tabulated under "Surplus and undivided profits". Your attention is called to the fact that the amount of preferred or common stock contains only the amount issued or outstanding (unissued stock is not included).
  - ll. Surplus and undivided profits (less deficits) for each return there is tabulated <u>either</u> the "Surplus and undivided profits" <u>or</u> the "Deficit" which is obtained by combining the last two liability items on the balance sheet. In tabulating the returns by industrial groups and by total assets classes, the sum of the "Deficits" is subtracted from the sum of the items "Surplus and undivided profits", and the result is labelled "Surplus and undivided profits (less deficits)."

# Compiled receipts and statutory deductions

- 12. The column headings "Net sales" and "Gross sales" are identical as explained in your footnote B on the tables.
- 13. Gross receipts from other operations The cost of operations shas not been deducted.
  - 14. Total compiled receipts Includes net profit from sale of capital assets (real estate, stocks, bonds, etc.) but not gross receipts from these items. Excludes nontaxable income other than interest on tax-exempt obligations and dividends on stock of domestic corporations as reported in Schedule L of the return.
  - 15. Cost of goods sold This item represents only such amounts as were shown specifically among items on the face of the return under "Less cost of goods sold". Items which may be allocable to "Cost of

goods sold" but which were reported under "Deductions" on the face of the return are included under "Miscellaneous deductions". As an illustration, on the 1933 return the amount tabulated as "Cost of goods sold" includes salaries and wages only when shown specifically in item 2 (c) on the face of the return. Salaries and wages which may be allocable to item 2 (c) but which were reported elsewhere on the return are tabulated "Miscellaneous deductions".

16. Depreciation and Depletion - The amounts used in the study are allowable deductions reported on the face of the return. If items of depreciation and depletion are found in "Cost of goods sold", "Cost of operations" or "Other deductions authorized by law", they are removed from these categories and tabulated as "Depreciation" or "Depletion". When such removals occur necessary adjustments are made in "Total cost of goods sold", "Gross profit from sales", "Total cost of operations", "Gross profit from operations" and "Total income".

Annual statutory depreciation is predicated on cost or value as of March 1, 1913, of capital assets (not, however, including land), whereas the balance sheet figure for gross property account represents the amount shown in the financial statement of the corporation, and may not be cost of property, due to adjustments and revaluation up or down. For this reason, it is impossible to determine accurately the percentage of depreciation sustained annually on the basis of the data contained in the tables. The annual depletion is likewise determined by statutory provisions and cannot be related to the current book value of the depletable assets. Also, in this connection, your attention is called to the rulings on depletion which are found in <u>Regulations 77</u>, Income Tax, Revenue Act of 1932, Articles 221-248, pp. 59-88.

- 17. <u>Cash dividends paid</u> The amounts tabulated for consolidated returns, in general, exclude inter-company dividends.
- 18. Taxes paid other than the Federal Income Tax does not include amounts tabulated in "Cost of goods sold".

In a study of statistics compiled from income tax returns, it must be borne in mind that returns are filed for tax purposes rather than for economic analysis and the data are taken from returns as originally filed by the taxpayer and prior to an audit by the Bureau. Therefore, in the finer sense it is not possible to secure true indexes or ratios between selected items as representative of given businesses because of these conditions.

The statistics from the returns truly reflect, in a broad sense and in aggregate, the economic changes from year to year, but in the refined classification by industries, by sources of profits and losses, by assets and liabilities and related items, the above considerations must be taken into account, together with the provisions of the revenue acts affecting income and deductions as defined for statutory income tax purposes.

You are referred to the text in each volume of the <u>Statistics of Income</u> for 1926 - 1933 for a description of the tabulation of corporation income tax returns in any particular year. Also, your attention is called to the synopsis of Revenue Acts 1909 - 1933, which is contained in the 1933 Statistics of Income. Table D of this synopsis, on pages 220 - 221, contains the corporation income tax provisions.

The tabulations mentioned herein are being forwarded to you under separate cover.

In the event that further correspondence relative to this matter is necessary, please refer to IT:C:St:EW.

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By direction of the Secretary.

## APPENDIX 2, TABLE 3

MARKET VALUE, AS AT JANUARY 2, 1936, OF THE CAPITAL STOCK OF THE BIG THREE

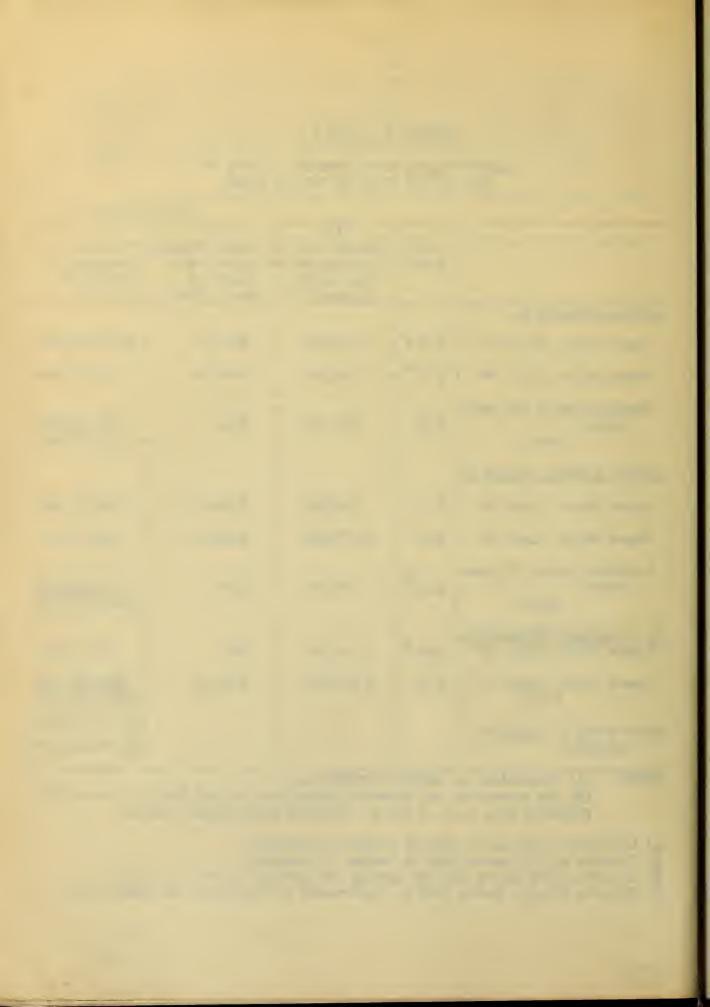
		741	(5)	
		(A)	: (B)	
;	Par :	Shares Out-	: Lowest Market	: Calculated
	: Value :		: Price (Per	: Value as of
	:	Dec.31,1934	: Share) on	: Jan.2,1936
		(Number)	: Jan. 2.1936	•
American Tobacco Co.			•	:
			•	•
Common Stock, Class "A"	\$25 1	1,609,696	\$97-1/4	\$156,542,936
Common Deock, Class "A"		1,000,000	• 421-174	• #100, 04c, 500
G G MDM	\$25 2/		*	
Common Stock, Class "B"	\$25	3,134,458	<b>\$99-5/8</b>	: 312,270,378
	:		•	:
Preferred Stock (6% cumu-	:		:	•
lative)	: \$100 :	526,997	: \$140	: 73,779,580
Total			•	542,592,894
20002			•	•
Titagett & Itrong Mahasas Co.			•	•
Liggett & Myers Tobacco Co:			•	
			*	
Common Stock, Class "A"	\$25 :	859,856	: \$110-1/2	\$ 95,014,088
	:		:	•
Common Stock, Class "B"	\$25 :	2,277,083	: \$110-1/2	: 251,617,671
			•	
Preferred Stock (7% cumu-	- /:		•	
lative)	\$100 <sup>3</sup> /	225,141	\$156	35,121,996
Total	ФТОО	という。工程工	• \$T00	
Total	•		•	<b>\$381,753,755</b>
	:		:	•
R. J. Reynolds Tobacco Co.:	1/		:	•
Common Stock, Class "A"	\$10 4/:	1,000,000	: \$60	: 60,000,000
			:	
Common Stock, Class "B"	: \$10 :	9,000,000	: \$55-1/4	: 497,250,000
Total		-,,	:	\$557,250,000
1000			•	• 4001,200,000
COAND MODAT (7			•	
GRAND TOTAL (3 companies			•	43 403 500 040
together)	:		•	\$1,481,596,649
	:		:	

SOURCE: (A) Securities and Exchange Commission

<sup>(</sup>B) The Commercial and Financial Chronicle, Vol.142, No. 3580, Jan. 4, 1936 Footnotes Nos. 1, 2, 3 and 4 - Standard Corporation Records.

Includes 11,200 shares held by company in treasury. 2/ Includes 44,362 shares held by company in treasury.

<sup>3/</sup> Includes 9,000 shares held by company and carried at cost in Assets.
4/ Includes 200,000 shares held in "Retirement and Insurance Investment Fund".



#### APPENDIX 2 - TABLE IV

Following is a list of statements prepared from various sources. Portions of the basic data contained in these statements have been in preparation of certain Tables appearing in the Text.

### SECTION NO. 1 (\*)

Statement No. 1. Comparison of certain items of Assets, Liabilities, Receipts, Compiled Net Profit or Deficit, Statutory Net Income or Deficit, and Cash Dividends Paid, By Total Assets Classes.

For selected industry groups of corporations, (listed below), for the calendar years 1933, 1932, and 1931.

#### Group No.

- 1 Food Products, including Beverages
- 2 Tobacco Products
- 3 Textiles and their products
- 4 Chemicals and allied products
- 5 All Industrial Groups in the United States, except Agriculture and related industries, and the Finance Group
- 6 All Manufacturing Groups in the United States
- 7 All Industrial Groups in the United States Agriculture and related industries
- 9 Finance, Real Estate, etc.
- Motor Vehicles, complete or parts
- 11 Factory Machinery
- 12 Agricultural Machinery and Equipment
- 13 Food and Kindred products
- 14 Liquors and Beverages

(Original work papers only)

Statement No. 2 Comparison of Total Assets, and certain items of Liabilities, Income, Expense, etc.

For selected industry groups of corporations (Same Industry Groups listed in Statement No. 1 above), for the calendar years 1926 to 1933 inclusive.

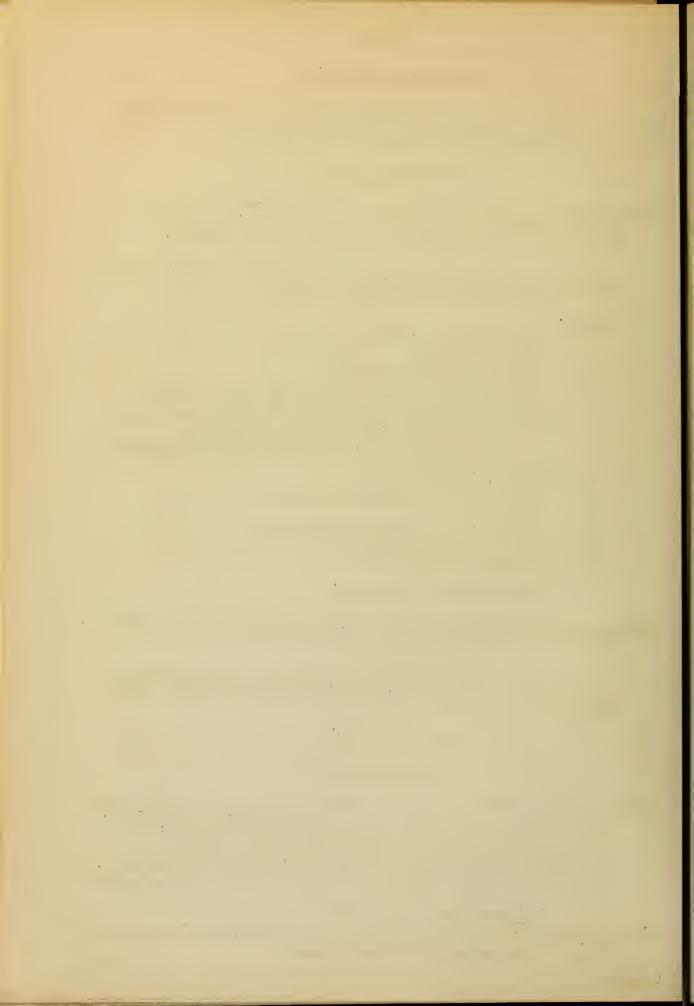
(Original work papers only)

#### SECTION NO. 3

Statement No. 1 Certain financial account data for each of 14 selected Industry Groups from corporation income tax returns, by the "combined" totals of concerns reporting "Statutory Net Income" and "Statutory No Net Income", and by total assets classes, transcribed from the basic data appearing on statements in Section No.1, Statement No. 1, for a comparative study in trends and percentages.

(Original work papers only)

<sup>(\*)</sup> Prepared from the statistical records and publications, (Statistics of Income), of the Bureau of Internal Revenue



Statement No. 2 Certain financial account data for each of 14 selected Industry Groups from corporation income tax returns, by the totals of concerns reporting "Statutory Net Income", "Statutory No Net Income", and "Combined", and by those returns "with" balance sheets, and those "with and without" balance sheets, transcribed from the <u>basic data</u> appearing on statements in Section No. 1, Statement No. 2, for a comparative study in trends and percentages.

(Original work papers only)

Corporation income tax returns for 1926 to 1933 inclusive, filed by six selected groups of corporations whose predominant business is classified as "Tobacco Products", showing for each year the group totals for certain items of assets, liabilities, receipts and deductions; also compiled net profit or deficit, statutory net income or deficit, net loss for prior year, cash dividends paid, stock dividends paid, gross profit from sales, and gross profit from other operations. (Data tabulated from returns as filed and prior to any revision or adjustments that may have subsequently been made as a result of an audit by the Bureau of Internal Revenue and without any analysis or adjustment of the underlying charges and credits leading up to the figures on the returns, now an adjustment of the data reported on the returns to a common method of accounting) (\*)

(Original work papers and one photostat copy)

Following statements relative to The American Tobacco Company; Capital Funds Employed for the Period Begun January 1, 1912 and Ended December 31, 1934. (\*\*) (Original and one carbon copy)

Net Assets Groups and Their Changes for the Period Begun December 31, 1911 and Ended December 31, 1934. (\*\*) (Original and one carbon copy)

Profit and Loss for the Period begun January 1, 1912 and ended December 31, 1934. (\*\*)
(Original and one carbon copy)

Following statements relative to Liggett & Myers Tobacco Company;
Capital Funds Employed for the period begun January 1,
1912 and ended December 31, 1934. (\*\*)
(Original and one carbon copy)

Net Asset Groups and their changes for the period begun December 31, 1911 and ended December 31, 1934. (\*\*) (Original and one carbon copy)

<sup>(\*)</sup> Prepared by the Statistical Section, Bureau of Internal Revenue (\*\*) Prepared from data published in Moody's Manuals & Standard Corporation Records.

Profit and Loss for period begun January 1, 1912 and ended December 31, 1934. (\*\*)

(Original and one carbon copy)

Following statements relative to R. J. Reynolds Tobacco Co.;
Capital Funds emoloyed for the period begun January 1, 1912
and ended December 31, 1934. (\*\*)
(Original and one carbon copy)

Net Asset groups and their changes for the period begun December 31, 1912 and ended December 31, 1934. (\*\*) (Original and one carbon copy)

Profit and Loss for the period begun January 1, 1912 and ended December 31, 1934. (\*\*)
(Original and one carbon copy)

Consolidating statement of operating results and ratios for the year 1916 to 1934 inclusive for the American Tobacco Company, R. J. Reynolds Tobacco Company, and Liggett & Myers Tobacco Company. (\*\*)

(Original and one carbon copy)

Consolidating statement of Capital Funds employed for the period begun December 31, 1916 and ended December 31, 1934, inclusive for The American Tobacco Company, R. J. Reynolds Tobacco Company, and Liggett & Myers Tobacco Company. (\*\*)

(Original and one carbon copy)

Consolidating statement of Profit and Loss for the period begun January 1, 1916 and ended December 31, 1934 for The American Tobacco Company, R. J. Reynolds Tobacco Company, and Liggett & Myers Tobacco Company. (\*\*)

(Original and one carbon copy)

Comparison of Assets, Liabilities, Receipts, Deductions, etc. for each of the following industrial groups; (\*\*\*)

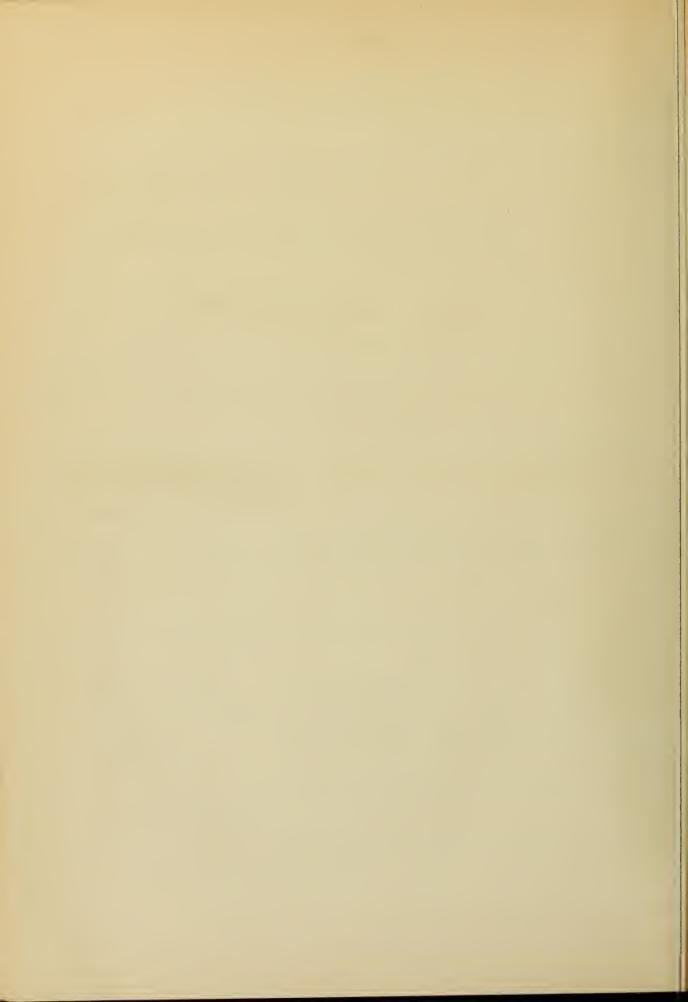
Tobacco Products	With and Without Balance	Sheets	1933-1926	inc.
Tobacco Products	With Balance Sheets		1933-1921	inc.
Food & Kindred Products	With and Without Balance	Sheets	1933-1927	inc.
Food & Kindred Products	With Balance Sheets		1933 only	
Petroleum	With and Without Balance	Sheets	1933-1926	inc.
Retail Trade	With and Without Balance	Sheets	1933-1926	inc.

<sup>(\*\*)</sup> Prepared from data published in Moody's Manuals & Standard Corporation Records.

<sup>(\*\*\*)</sup> Tabulation sheets and published reports, (Statistics of Income), of the Bureau of Internal Revenue.

## APPENDIX 3 - FINANCIAL COMPANY GROUPS

To Illustrate the Text of CHAPTER I - THE LARGE CORPORATION
IN THE TOBACCO MANUFACTURING
INDUSTRY



### Consisting of

Table I The Official Positions and Stock Holdings held by the Directors of the Big Three (3 pages).

Table 2 Corporation Income Tax Returns for 1926-1933 for six groups as listed on each page of this table, showing for each year totals for certain items of assets, liabilities, receipts and deductions; also compiled net profit or deficit, statutory net income or deficit, net loss for prior year, cash dividends paid, stock dividends paid, gross profit from sales, and gross profit from other operations (6 pages).

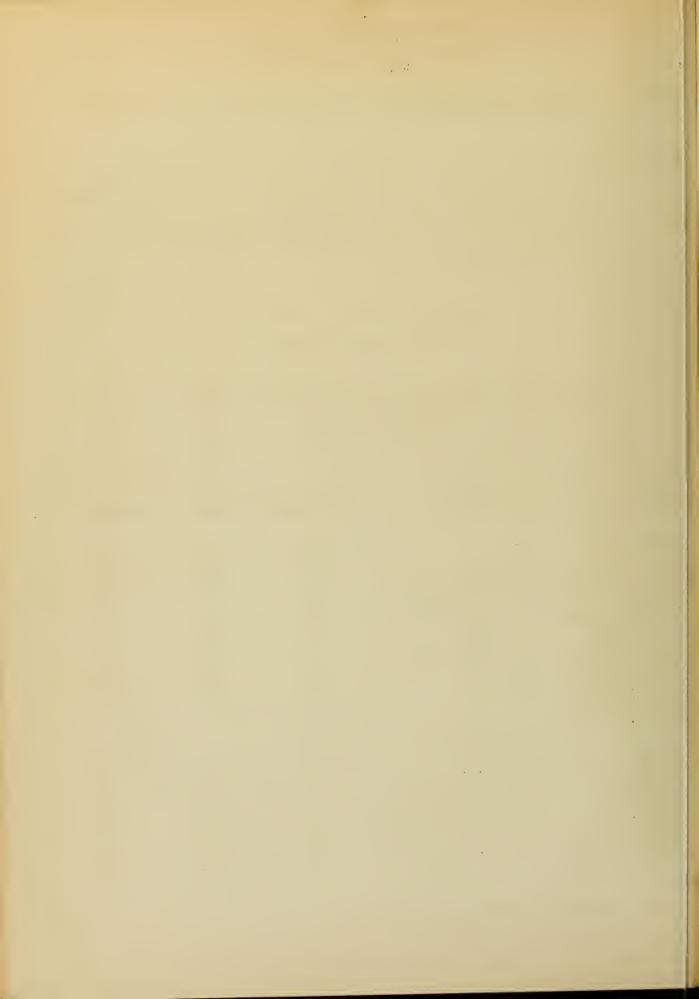
Appendix 3 - Table I, page one

AMERICAN TOBACCO COMPANY

List of Directors, their Official Positions and Their Stock Holdings as per December 31, 1934

-				
Name	Position	Preferred	Common	Common B
Richard Boylan	D. & S.	None	1	None
James R. Coon	Asst. T.	Hone	None	10
John A. Crowe	D. & Asst. to V.P.	5	${ t Mone}$	187
James R. Cummings	Asst. Sec.	Hone	None	None
C. Huntley Gibson	D. & Factory ligr.	Fone	1	None
Patrick H. Gorman	D. & Mgr. Cigar Leaf	l'one	101	50
Paul M. Hahn		None	505	None
Tullis Harkrader	D. & Traffic Mgr.	1	${ t Mone}$	500
Edmund A. Harvey	D. & Credit Mgr.	40	None	240
James B. Harvie		50	118	117
George W. Hill	D. & Pres.	80	3,010	18
James E. Lipscomb,				
Jr.	D. & Pres. of			
	Leaf Sub.	100	100	222
Charles E. Neiley	D. & V.P.	100	5,000	1,000
W. H. Ogsbury	D. & Asst. to V.P.	50	None	80
Fred B. Reuter		Hone	1	160
Frank V. Riggio		2	242	260
Vincent Riggio		90	4,745	40
	D. & V.P. & Auditor	20	$\mathbb{N}$ one	100
Wm. E. Witzleben	D. & Adv. Mgr.	30	None	None

Source: Securities & Exchange Commission



# Appendix 3 - Table I, page 2

## LIGGETT & MYERS TOBACCO COMPANY

List of Directors, Their Official Positions and their Stock Holdings as of February 15, 1935.

						<b>a</b> = =
Na	me		Position	Preferred	Common	Common B.
C.	I.	. Toms	P. & D.	1,000	17,500	-
J.	W.	Andrews	V. P. & D.	<b>→</b>	3,800	837
₩.	D.	Carmichael	V. P. & D.	100	1,966	334
V.	W.	Flowers	V. P. & D.		14,300	60
E.	H.	Thurston	V. P. & D.		3,000	N/O
G.	77.	Whitaker	V. P. & D.	5	7,500	-
E.	T.	Noland	Secy. & D.		5,154	~**
Ве	n.	Carroll	Treas. & D.	_	2,426	280
C.	В.	Arthur	Asst. Treas-Secy. & D.	124	500	726
R.	D.	Frisselle	Branch Mgr. & D.	-	100	636
D.	F.	Green	Sales Mgr. & D.	-	760	843
T.	S.	Tisdel	Asst. Treas-Secy. & D.	<b>-</b> .	2,500	20
₽.	В.	Fleming	Asst. Treas-Asst. Secy	500	252	88
3.	J.	Sanders	Auditor	-	<b></b> 1	-
		Abbott	Asst. Auditor	-	-	134
β.	W.	Wilson	Asst. Auditor	-	-	-
H.	E.	White	Asst. Auditor	-	-	40

Source: Securities & Exchange Commission

## Appendix 3 - Table I, page 3

. .....

### R. J. REYNOLDS TOBACCO COMPANY

List of Directors, their Official Positions and their Stock Holdings as of March 18, 1935

Name	Position		Common 3
W. N. Reynolds	D. Chairman Execu-		
	tive Committee	72,500	163,397
Bowman Gray	D. Chairman Board		
	of Directors	<b>7</b> 5,000	150,000
S. Clay Williams	D. Wice-Chairman		
	Board Directors	32,000	-
James A. Gray	D. President	60,000	70,000
T. H. Kirk	D. Executive V.P.	9,000	43,258
R. E. Lasater	D. II II'	53,500	9,025
C. W. Harris	D. II II	15,000	47
M. E. Motsinger	D. Ex. Secretary	9,000	5,000
J. W. Glenn	D.	მ <b>,3</b> 60	_
R. C. Haberkern	⊃.	3,750	8
L. F. Owen	⊋.	11,500	2,600
R. D. Shore	D. Executive Treasur	er10,000 -	10,000

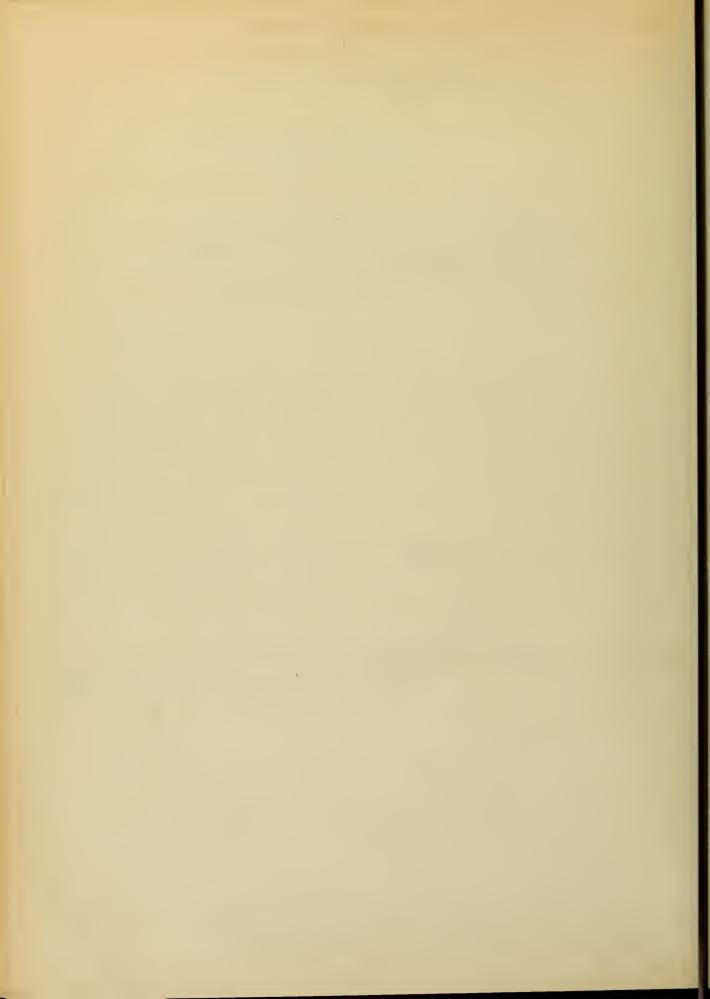
Above figures include all shares shown of record on name of each Director and Officer of the Registrant plus all other shares, if any, reported by each as beneficially owned.

Source: Securities & Exchange Commission

## TABLE 2

Corporation Income Tax Returns for 1926 - 1933, for Six Groups

(These are the original negative photostats. No other copy is available.)



Section A of this chapter is based on field studies of this Industry by the Bureau of Labor Statistics as follows:

- 1. Field study during the Code period in the Spring of 1935. A small number of leaf dealers' plants under no Code was also included in this study.
- 2. A second field study in the Fall of 1935, after the termination of the Code. This study also included certain leaf dealers' establishments in the South Atlantic States

Unless otherwise noted, data given in Section A are based upon tables prepared from these two field studies.

A LABOR IN THE CIGARETTE: SMUFF? CHEWING AND SMOKING TOBACCO MANU-FACTURING INDUSTRY.

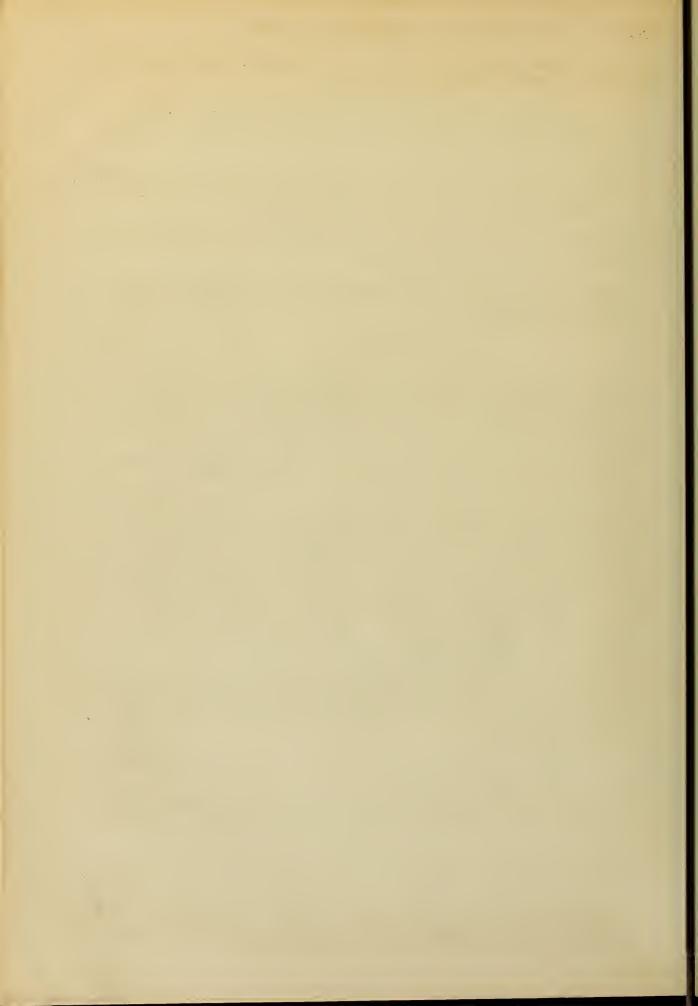
#### SHIMARY

In 1935, workers employed in the cigarette, snuff, chewing and smoking to bacco manufacturing industry numbered about 42,000, some 80 percent of whom were located in four Southern States -- North Carolina, Virginia, Kentucky, and Tennessee -- while the remainder spread from Missouri into New York, with negligible numbers elsewhere. The force comprised in roughly equal proportion white men, white women, negro men, and negro women.

Three companies designated for the purposes of the Labor Study as the Big Three (Reynolds, Liggett and Myers, and American Tobacco) employed 65 percent of all workers and 85 percent of the negro workers. 6 companies (Lorillard, Brown-Villiamson, Axton-Fisher, Philip Morris, Larus, and Scotten-Dillon) employed another fourth of all the workers, while three snuff companies (U. S. Tobacco, Helme, and American Snuff), together with the small tobacco companies, employed the remaining tenth. In all company groups but the Big Three, white workers predominate; three-fifths of the Big Three workers were negro. In part this results from the fact that the Big Three engage to a larger extent than the other companies in early preparatory processes such as stemming of the tobacco leaf. It is in such chiefly manual processes, or as common labor, that the great majority of the negro workers is employed.

As the result of a field survey (\*) made by the Bureau of Labor

<sup>(\*)</sup> Shortly after the Executive Order authorizing the study of the Cigarette, Snuff, Smoling and Chewing Tobacco Industry, the Tobacco Unit in the Division of Review, National Recovery Administration, arranged for a field study by the Bureau of Labor Statistics, Department of Labor, covering wages and hours in the tobacco industry. Prior to the actual field work the Tobacco Unit sent representatives to a large number of factories, and determined both the occupational classification and the plant coverage desired. Throughout the course of field work and office tabulation, the Unit cooperated with the Bureau of Labor Statistics, and ultimately set up the forms for the basic tables in which the results are incorporated.



Statistics, Department of Labor, in the spring of 1935, it is possible to examine closely the situation of the different sex-color groups composing the labor force and the different wage groups set up by the Code. One of the first facts to appear is that, particularly as respects earnings, there are marked differences in level associated with sex and color of the workers and explainable only in part by differences in the character of the work performed. Thus in March 1935, white men earned on the average 55 cents an hour; white women, 41; negro men, 37; and negro women, 31. On a weekly basis, taking the groups in the same order, the average figures ran: \$19.50, \$13.50, \$13.50, and \$11 -- the longer hours put in by negro men bringing their average weekly earnings to approximately the same level as that of white women.

Among company groups, if snuff companies are put aside, the Big Three in March 1935 paid to the sex-color groups in general the highest hourly and weekly rates, though negro men had a higher hourly rate with the Second Six companies and white men a higher weekly rate with small companies, where their hours were longest. In general, earnings with small companies were comparatively low. Despite the higher earnings of particular sex-color classes with the Big Three companies, the average hourly rate paid by this group to all employees was comparatively low, because of their large employment of negroes.

With reference partly to different branches of manufacture, the Code set up four classes of employees, for each of which a different minimum wage, ranging from 40 cents down to 25 cents, was prescribed. From analysis of the occupations entering these groups, it appears that about one-fourth of all workers fell in occupations entitled to the 40-cent minimum, and that these occupations (confined to the final stages of cigarette manufacture) employed white workers almost exclusively. The proportions of the workers entitled to the 35- and 30-cent minima cannot be indicated closely (because of admixture in the returns of the chewing tobacco employees entitled to only 25 cents), but did not exceed 40 percent and 20 percent respectively.

Examination of these Code groups on the basis of actual earnings reveals, as would be expected, that groups as a whole averaged above the minimum rates. Some Code violations are indicated by the fact that in certain cases even average earnings for negro workers in particular occupations fell below the prescribed minimum earnings. But many apparent defections from the 35- and 30-cent minima result from the failure of the returns to separate chewing-tobacco employees from wage groups. Within each of the Code wage groups, the occupational averages spread over a wide enough range to indicate that the setting up of minima did not reduce workers within a group to one level.

When attention is turned from average conditions to the dispersion of hours and earnings for individual workers, it is found that some eight percent of all employees are in a very low earning group, receiving in March 1935 less than \$8 a week. This low group is constituted largely of workers in a few occupations -- notably stemmers,

pickers, and searchers -- where women, especially negro women, are primarily employed. Terms of work for this group are strongly affected by the existence of even less favorable conditions -- far lower wages and longer hours -- in similar employment by independent leaf dealer companies. (\*)

For all workers, hours and earnings in March 1935 represent distinct improvement over those obtaining in earlier periods examined -- 1930, 1933, and 1934. Moreover, there is clear indication that the termination of the Code did not lead to breakdown of standards, but that in September 1935 hourly and weekly earnings were higher on the whole than in the spring.

Against wages paid in manufacturing industries in the country at large, tobacco wages in March 1935 were distinctly low. Against wages paid in some other Southern industries and in some of the industries important in the tobacco manufacturing States, particularly by comparison with cotton-textile wages, they make a better showing. In evaluating the significance of such comparisons, account must be taken of the relative unimportance of labor costs in tobacco manufacture (as compared, for example, with labor cost in cotton goods manufacture) and of the exceptional prosperity of the tobacco companies.

### 1. The Size of the Labor Force.

In March 1935 there were about 42,000 wage earners and minor salaried employees in the industry defined by the Code for cigarette, snuff, chewing, and smoking tobacco manufacture. (\*\*) Since activity in March was somewhat lower than for the year as a whole, average employment for the year may perhaps run a little higher than this. In number of workers, therefore, this manufacture is among the more important code industries, since less than 80 of the first 500 codes approved had as many as 40,000 employees even in 1929, when employment generally was distinctly greater than 1935. (\*\*\*)

<sup>(\*)</sup> An independent field survey of living conditions among tobacco workers was conducted in the spring of 1935 by Dr. Charles S. Johnson of Fisk University. The scope of the survey differed in sundry respects from the Code industry -- covering only six Southern cities, omitting snuff employees, and including employees of independent leaf dealers. Dr. Johnson's complete manuscript is on file in Division of Review, National Recovery Administration.

<sup>(\*\*)</sup> This figure is based on questionnaire or payroll returns secured from all leading companies and from a significant fraction of the small companies, and on an estimate for the remaining small companies. It excludes officials, executives, and persons engaged in buying or selling of leaf and manufactured tobacco products; but includes, along with wage earners, persons of lower supervisory rank and ordinary office and clerical workers.

<sup>(\*\*\*)</sup>Leon C. Marshall, "Hours and Wages Provisions in NRA Codes", the Brookings Institution Pamphlet Series No. 16, 1935, p. 4.

This figure of 42,000 is somethat higher than suggested by the Census of Manufactures for 1935 or than will be reported, probably, by the Census of Manufactures for 1935. The Census puts the number of wage earners in cirarette, chewing and smoking tobacco, and snuff manufacture in March, 1933, at only 31,000 -- or 33,000 if one adds an estimate for salaried employees (\*) -- against 38,000 indicated for that month by 1935 returns (subsection 5, this chapter) (which show employment for March, 1933, approximately 10% below that for March, 1935).

Two Census omissions chiefly account for this difference: (1) the omission of small establishments with product valued at less than \$5,000, and (2) the omission of leaf departments of manufacturing plants. (\*\*) The Code included such leaf departments (beginning as it did with the process of redrying or with delivery of the leaf to the manufacturing plant), and embraced establishments of all size. For these reasons, figures applying to the Code industry naturally run higher than Census figures.

<sup>(\*)</sup> For salaried employees (including in this case managers, superintendents, and like administrative officials) the Census gives no monthly figures but only an average for the year of 1,828.

<sup>(\*\*)</sup> While it is the intent of the Census to omit stemming and rehandling, evidence exists that such operations are not in fact always omitted from its figures.

### 2. Regional Concentration

Regional concentration of the industry enhances greatly the importance of this employment to particular States. Approximately four-fifths of the workers were employed in the tobacco belt of the South, in the four adjacent States of North Carolina, Virginia, Kentucky, and Tennessee -- with almost half of all employees in North Carolina alone. The remaining fifth spread across the six or eight Northern States from New York and New Jersey into Missouri, with a few scatterings elsewhere, as in California. Obviously the industry as employer is important primarily to Southern factory labor.

### 3. Composition with respect to Color and Sex.

In view of the regional concentration of this industry and its heavy dependence on unskilled and semi-skilled labor, it is not surprising to find that almost half the workers are negro. In neither sex do negroes predominate, but in both they approach equality of numbers with the white, and on the whole comprise some 45 per cent of the labor force. Outside the four Southern States, of course, the proportion runs very much smaller than this, while in those four States it reaches the half-way mark.

Interesting shifts in this proportion occur, however, when one examines workers in different company groups. Thus, the Big Three companies, as a group, employ in both cigarette manufacture and in chewing and smoking tobacco manufacture distinctly more negro workers than white. In March, 1935, almost three-fifths of their workers were negroes, compared with only one-third negro workers in the small companies, and still smaller proportions (a fifth and an eighth respectively) in the other tobacco groups and the snuff companies. Even greater variety, of course, appears among individual concerns, with some employing no negroes at all, while others have 90 per cent or more. In part, the differences are a result of location; but in part the very dissimilar proportions of negro workers presumably reflect differences either in the type of operations (e.g. stemming) or in company policy.

Among both whites and negroes, the industry as a whole employs a slightly higher number of women than of men. In snuff manufacture, men predominate; but in the two other branches of the industry — cigarettes, and chewing and smoking tobacco manufacture — there is a slightly higher proportion of women than of men.

#### 4. Distribution by Companies.

Of the aggregate of 42,000 workers, 65 per cent, or practically two out of every three, were employed by the three largest companies R. J. Reynolds Tobacco Company, Liggett & Myers Tobacco Company, and American Tobacco Company. Another 24 per cent were employed by the six tobacco companies next in size -- Brown & Williamson Tobacco Corporation, P. Lorrillard Company, Axton-Fisher Tobacco Company, Philip Morris and Company, Ltd., Inc., Larus & Brother Company, Inc., and Scotten Dillon Tobacco Company; 4 per cent were employed by three snuff companies -- United States Tobacco Company, George W.

Helme Company, and American Suuff Company; and only 7 per cent by the remaining indeterminate number (perhaps not exceeding one or two hundred) of small companies. (\*) Clearly, as regards the condition of labor with respect to wages and hours, it is desirable to examine closely the nine companies which together employed ninetenths of all the workers.

## 5. Workers in Wage Groups Prescribed by the Code.

The wage provisions in the Code for the Cigarette, Snuff, Chewing, and Smoking Tobacco Manufacturing Industry covered four main groups of workers, for each of which a different minimum hourly wage was prescribed. At the top, with a 40-cent hourly minimum, came factory workers engaged in the final stages of cigarette manufacture, together with office workers in all branches of the industry. (\*\*) At the bottom, with a 25-cent hourly minimum, came all workers engaged in processing or manufacture of chewing tobacco, together with "slow" stemmers (\*\*\*) in cigarette or smoking tobacco manufacture. Intermediate were two groups, one -- at a 30-cent minimum -- comprising seven specified occupations, (\*\*\*\*) and the other -- at a 35-cent minimum -- comprising all processing or manufacturing workers not elsewhere specified. The 35-cent group thus embraced employees engaged "in the processing or handling of cigarette tobacco at any stage prior to the fabrication of the product" or "in the processing or manufacture of snuff or smoking tobacco" -- other than those in occupations specifically excepted.

<sup>(\*)</sup> The number of small companies cannot be determined from reports either of the Census of Manufactures or of the Bureau of Internal Revenue. The Census in its latest report, covering 1933, showed 139 establishments (omitting, of course, those with product valued at less than \$5,000) whose primary business was manufacture of cigarettes or chewing and smoking tobacco and snuff; but since the term establishment, though it may apply to multiple plants in one place, ordinarily means a single plant or factory, the number of establishments covered is greater than the number of companies covered. Again, the Bureau of Internal Revenue reported 98 cigarette factories and 738 "tobacco" (chewing and smoking tobacco and snuff) factories in operation on January 1, 1935; but the Bureau's totals refer to separate plants, not to companies. Thus, a single company might enter the total many times, since each of its cigarette plants and each of its "tobacco" plants is counted separately. The scrap chewing departments of cigar companies also enter the figures, such departments being required to register as separate tobacco factories.

<sup>(\*\*)</sup> The Code specified for "accounting, clerical or office" workers a minimum of \$16 for a 40-hour week, except that office boys, girls and messengers (not to exceed 5 per cent of the office force) might get 20 per cent less than that.

<sup>(\*\*\*)</sup> Not to exceed 15 per cent of all hand stemmers.

<sup>(\*\*\*\*)</sup>Searchers, pickers, cleaners, hangers, prizers, classers and hand stemmers.

Great interest naturally attaches to the number and type of employees included in the four wage groups. On these points some information can now be derived, on the basis of a survey of employment in the industry conducted for National Recovery Administration by the Department of Labor in the Spring of 1935. While not a complete census, the survey covered a large fraction of the industry, embracing nearly 60 per cent of all employees in a sample selected to represent fairly different size companies, different regions, and different branches of the industry.

The survey does not permit a 4-way breakdown like that in the Code, because it does not segregate employees in chewing to-bacco manufacture from those in smoking tobacco. It does, however, permit the statement that under the Code about one-fourth of all workers in the industry were accorded the 40-cent minimum; less than 40 per cent were accorded the 35-cent minimum (the figure includes an unknown number of chewing-tobacco employees entitled to only 25-cents); and less than 20 per cent were accorded the 30-cent minimum (again, the figure includes an unknown number of employees subject to the 25-cent minimum) (\*). For about 9 per cent of the industry no minimum hourly wage was specified in the Code; while for the re-

(\*) The above breakdown of employees into groups subject to the specified hourly minima was made by allocating to each group the occupations that came under that group as defined by the Code. Thus, the Code indicates that the 40-cent minimum is to apply to office workers and to cigarette workers engaged in "fabrication" of the product, as distinct from processing or handling of cigarette tobacco at any stage prior to fabrication. Assuming that fabrication, or "final finishing" (as the Code Advisory Committee called it in letter of March 14, 1935) includes not only shaping of the product but also wrapping and packing for shipment, 11 classes of cigarette workers enter this 40-cent group (along with office workers); viz.:

Carton makers
Carton packers
Carton wrappers and
banders, hand
Carton wrappers and
banders, machine
Cigarette catchers

Hand packers
Machine adjusters
Making-machine feeders
Making-machine operators
Packers, case
Packing-machine operators

(These occupational classes were defined jointly by representatives of NRA and the Bureau of Labor Statistics, Department of Labor on the basis largely of a field study preceding the wage and hour survey in the Spring of 1935. Each class embraces several individual occupations varying only slightly in character.) To the 35-cent group are allocated occupations processing or handling cigarette tobacco, and all processing or manufacturing occupations in snuff and smoking tobacco, except in each case the seven specified for the 30-cent group (and excepting slow stemmers). As stated above, it is unfortunately not possible to separate out from the figures for these two groups employees in chewing tobacco manufacture, who were accorded a 25-cent minimum.

maining 6 per cent not accounted for above the applicable minimum cannot readily be determined.(\*)

If color and sex of the worker be taken into account, certain marked concentrations appear. Most noticeable are these two: (1) that practically all workers entitled to the 40-cent minimum were white (less than 4 per cent were negro); and (2) that in seven occupations subject to the 30-cent minimum (or in the case of chewing tobacco workers 25-cent) 90 per cent of the workers were women, with negro women outnumbering the white two to one. In no other group did negro women figure to a significant degree.

# 6. Average Hourly Earnings in March 1935.

Against the Code provision (as/the least that workers should get) are to be put the facts as to what they actually get. Presumably groups as a whole would earn more per hour than the minimum rates set in the Code. From the Bureau of Labor Statistics survey already described, the facts can be elicited. And although the Code, as already indicated, nowhere deals with a single minimum rate for all workers, it will undoubtedly be useful to start with the overall position.

In March 1935, then, a month after the Code became effective, all employees in the Code industry earned on the average a little over 41 cents an hour. (\*\*) In a labor force so diversely constituted, however, with respect to color, sex, and -- in some degree -- location, a single average could hardly be, and in fact is not, a typical figure about which other rates cluster. It is practically essential to deal with a scale of averages, including rates for white men, white women, negro men, and negro women. In this scale the departures from the central figure of 41 cents are indeed wide, with white men

(\*) Occupations not readily assignable to a particular minimum comprise: foremen, inspectors, "miscellaneous direct" and "miscellaneous indirect" workers in cigarette manufacture, together with "miscellaneous indirect" workers in snuff and smoking tobacco manufacture.

Occupations for which no minimum wage rate was prescribed by the Code comprise:

Janitors, cleaners
Machinists
Power-House workers

Skilled mechanics
Skilled mechanics helpers
Substandard workers

Service employees

It should be remarked, however, that the Code prescribed for watchmen (a small group included by the Department of Labor with service employees) a minimum wage of \$18 for a week of 56 hours.

(\*\*) All the figures dealt with here, unless otherwise indicated, are the weighted as distinct from the simple averages constructed by the Bu. of Labor Statistics. The simple averages commonly run somewhat higher than the weighted, but do not tell so true a story, because they under-represent the Big Three Companies and consequently the proportion of negro workers.

 $13-\frac{1}{2}\phi$  above and negro women  $10\frac{1}{2}\phi$  below the general average. In descending order, the (rounded) figures run: white men, 55 cents; white women, 41 cents; negro men, 37 cents; negro women, 31 cents.

This situation, throughout the wage data, strongly suggests the operation of two wage differentials, color and sex, which could, if it exists, be confirmed only by a study of occupational rates and groups. The Code forbade any sex differential for "female employees performing substantially the same work as male employees", but did not advert to regional or to color differentials.

The general averages afford also a first view of the position of workers in different size companies. Reverting for a moment to the single figure embracing workers without regard to color or sex, and aligning on this basis the several company groups, one finds that the Big Three companies and the small firms paid a little less than the general average per hour (respectively one cent and two cents less), whereas the intermediate and the snuff companies paid more than the general average (respectively one cent and ten cents more). (\*)

When one looks at the rates paid to each sex-color class, however, the Big Three and the Second Six Companies change places. That is, with respect to each of the four classes — white men, white women, negro men, negro women — it appears that the Big Three companies paid more per hour (though in some instances only a trifle more) than the average for that class in all companies combined, whereas, the Second Six companies paid — except to negro men — less per hour than the average. (\*\*)

The explanation of these apparent contradictions whereby the Big Three companies bettered the all-company hourly average for each particular class of workers and yet fell short of it for all workers together, while the Second Six companies fell short of the all-company average for most classes of workers and yet exceeded it for all workers together, lies in the composition of the labor force. As noted earlier, almost three-fifths of the workers for the Big Three companies are negro, whereas more than four-fifths of the workers for the Second Six companies are white. In other

<sup>(\*\*)</sup> In detail, the cents differential earned in March, 1935, by employees of the Big Three and the Second Six companies, as against the comparable averages for all companies combined, ran as follows:

	All Workers	White Men	White Women	Negro Men	Negro Women
Big Three	۹.۰	/1.7	<i>+</i> 3.0	<i>/</i> .1	<i>f.</i> 1
Second Six	<i>+</i> 1.2	-3.6	-2.7	<i>‡</i> 1.1	2

<sup>(\*)</sup> The noticeably high figure for snuff companies is discussed later.

words, the Big Three employ heavily the two low-wage classes -- negro men and women -- whereas the intermediate companies employ primarily the two higher-wage classes -- white men and women.

Differences in composition of the labor force, in turn, are associated in part with differences in the operations performed, since the Big Three companies do relatively more stemming than the Second Six. Here, as in the case of sex-color differentials, examination of particular occupations is needed, to show in this case how the different company groups compare with respect to rates and type of labor employed for identical operations.

In the case of the small and the snuff companies, no contradictions arise. Not only to their entire force but also to each sex-color class, snuff companies paid more per hour and small companies paid less per hour than the comparable general average. (\*) For the small companies, lower rates are in harmony with reiterated statements during the period of Code formation that such companies could not afford to pay suggested minima, and probably reflect the fact that the small concerns are engaged to a relatively large extent in a declining industry -- chewing tobacco manufacture.

The high averages displayed for snuff companies result from a combination of factors; such as plant location (more than half the snuff employees are located in the North) and negligible employment of negro women, the lowest wage class. That the rate differential reflects also the highly mechanized character of snuff operations is suggested by the fact that it persists in a majority of cases even when comparison is made against tobacco plants in the same States by sex and color. In connection with the showing made for the snuff and the small companies, it is well to recall that together they employ little more than one-tenth of the labor in the industry.

<sup>(\*)</sup> In detail, the cents differential earned in March, 1935, by employees of the small and the snuff companies, as against the comparable averages for all companies combined, ran as follows:

	All Workers	White Men	White Women	Negro Men	Negro Women
Small com					
panies	-2.0	-1.8	-5.7	-4.4	-3.4
Snuff com-					
panies	<i>4</i> 9.6	<i>4</i> 5.1	· /1.5	-1.5	a/
	70.0	70.1	7 = • 65	1.0	<u> </u>

a/ The differential for negro women is \( \frac{1}{2} \) cents, but the reported employment of negro women is so small that the figure lacks significance. Snuff differential for all workers exceeds that for groups, because negroes depress the all-company figure.

## 7. Average Hourly Earnings for Code Groups

The presumption that in the industry as a whole the wage groups defined by the Code would average above the set minimum rates is borne out by the record. It will be recalled that the 40-cent minimum applied to a dozen occupations, all (except office workers) confined to cigarette manufacture. In all these occupations average hourly earnings were above 40 cents, settling in most cases at 41 to 48 cents, but rising higher than that for two factory occupations as well as for office workers. (\*) One defection stands out; namely, that in four of five of these occupational classes, the averages for negro workers were barely above or actually below the prescribed minimum. Even though the number of negro workers involved is small, such defection might appear significant.

In this connection, however, a technicality of the computation must be borne in mind; to wit, that workers in occupations common to several branches of the industry, including some of the occupations here in question, were allocated to a particular branch according to the orimary product of their plant. Hence a minor number of the employees classified as cigarette workers may in fact have been working in smoking or plug departments entitled to only a 35 or 25-cent minimum. This circumstance, together with chance errors in the occupational assignments, probably accounts for the defect of the negro average in three or four cases, though it does not suffice to explain all cases.

In the group of workers entitled to a 35-cent minimum, all occupations but one averaged above the prescribed figure, varying for the most part between 37 and 43 cents. (\*\*) The exception was stemming-machine feeders, who got a little less than 35 cents (34.7). When one examines the groups on a color basis, no exceptions at all appear among white workers — in all the affected occupations they averaged above the 35-cent minimum; but among negro workers exceptions multiply, with negroes in nine occupations, chiefly in the chewing and smoking tobacco and snuff branch of the industry, averaging below 35 cents. The impossibility, already indicated, of separating out from the group entitled to a 35-cent minimum the employees in chewing tobacco entitled to only a 25-cent minimum may be assumed to be the chief explanation of the defect in the negro averages.

For the group of seven occupations entitled to a 30-cent minimum, the story is essentially the same as above. Except for negro workers in one or two occupations (for whom again, presumably, the inclusion of employees in chewing-tobacco manufacture helped lower the average), average hourly earnings cleared the minimum by amounts varying from one cent to several. The diversity of average hourly earnings among occupations in this group, and still more in the

<sup>(\*)</sup> Making-machine operators averaged 51 cents, machine adjusters  $68\frac{1}{2}$  cents, and office workers 57 cents. For occupational classes no weighted but only simple averages have been computed.

<sup>(\*\*)</sup> Machine cutters averaged 46 cents; and in the smoking and chewing tobacco and snuff branch of the industry, carton makers also averaged 46 cents and machine adjusters, 60 cents. Inspectors and foremen, likewise, had high hourly averages.

other groups, indicates that the setting up of wage minima did not reduce workers to flatly uniform levels.

It is of incidental interest that in those occupations for which no minimum was specified -- comprising, it will be remembered, some nine per cent of all workers -- employees belonged more largely to occupations with rather high hourly earnings than to those with low earnings. The small number of substandard workers in this group, however, averaged only 24 cents an hour.

## 8. Average Hours Worked Per Week (\*)

The Code provided that the normal work-week for wage earners and minor salaried employees should not exceed 40 hours, except for a few specified groups. (Engineers, firemen, receiving and shipping employees could work 44 hours; and watchmen, 56.) In the week of March 1935 covered by the survey, hours for all workers combined averaged well below 40, barely exceeding 35. In fact, from the month by month figures available, they seem to have been below 40 (for all workers combined) ever since the summer of 1933. (\*\*)

Among company groups, the nearest approach to a 40-hour week in March 1935 was made by the snuff companies, with an average for all employees of close to 38 hours. Longer hours in snuff manufacture than elsewhere were connected, partially at least, with a seasonal activity not experienced by other branches of the industry.

Outside the snuff companies, the Big Three had the fullest week, averaging 36 hours. Their white workers had shorter hours than those of any other company group, but the longer hours and the number of their negro workers bolstered up the group average. Small companies fell a little below the total-industry figure of 35, even though their white employees worked relatively long; while the Second Six had the shortest work-week of any group -- not much over 33 hours. (\*\*\*) In some instances, the number of hours worked resulted directly from staggering of employment.

<sup>(\*)</sup> In this section again the weighted rather than the simple averages secured in the Bu. of Labor Statistics survey is used. Giving due representation to Big Three's negro employees, the weighted figures show somewhat longer hours, for all companies combined and for the Big Three group, than do the simple averages.

<sup>(\*\*)</sup> The month by month figures (not all of which are published) are compiled by the Employment Division of the United States Bureau of Labor Statistics. They cannot be sub-divided to show particular classes of workers, except that employment in chewing and smoking tobacco and snuff factories is reported separately from that in cigarette factories.

<sup>(\*\*\*)</sup> One plant in the Second Six group showed an exceptionally short week, of only 24 hours; but even with this plant omitted, the Second Six still had a shorter week than the other groups.

Some differences in hours associated with color and sex appeared. Thus, women, averaged only 34 hours against the men's 36; white workers only 34 hours against the negroes' 36. Except for the influence of the Big Three Companies, the color average would have run in the opposite direction, since among all other company groups -- (Second Six, small, and snuff) -- white workers had a fuller week than negroes of the same sex. With the Big Three, not only did negroes work longer than white employees, but negro women worked a trifle longer than negro men. This was the only instance in which the work-week for women exceeded that for men of the same color.

## 9. Average Earnings per Week

Working approximately 35 hours, at approximately 41 cents per hour, the average employee in the Code industry earned \$14.50 for the week. Three of the four sex-color classes in the industry, however (white women, and negro men and women), earned less than \$14.50; and one class (white men) earned more. In descending order, their average pay ran: white men, \$19.50; white women, \$13.50; negro men, \$13.50; negro women, \$11. In every group of companies this same descending scale appeared, except that in the Second Six, negro men -- because of slightly longer hours -- earned a trifle more than white women. (\*)

Though the industry averaged \$14.50, the only company group to average that much was the group of three snuff companies, which showed a figure of \$19. In part this relatively high figure resulted from the practical non-employment by these companies of negro women (from the lack of stemming operation), but it also reflected better-than-average hourly rates and longer-than-average hours for each of the remaining employee classes.

Just under the total-industry figure were the Big Three companies, with an average of \$14.44. The Second Six and the small companies followed at about half-dollar intervals, with (rounded) figures for the week of \$14 and \$13.50. Each sex-color class except white men likewise made more with the Big Three than elsewhere (snuff companies aside); thus, white women earned almost \$2 more with them than in the nearest competing group; negro men almost \$1 more; and negro women almost \$3 more. In the case of negroes this spread resulted from the combination of better-than-average hourly rates and longer-than-average hours; while in the case of white women it was the result solely of the relatively high hourly rate (44 cents), their work-week with the Big Three, as already noted, being very short. White men earned most from the small companies (snuff companies still aside) where their hours were longest; and also because of longer hours, negro women made somewhat more with

<sup>(\*)</sup> Rounding of the figures to the nearest half dollar puts negro men at the same approximate level as white women; though more detailed figures show the white women slightly ahead. (See note, next page.)

the Second Six. (\*)

#### 10. Position of the Individual Worker

To supplement the incomplete view afforded by averages, it is essential to consider the effective limits of hours and earnings. In defining those limits here, no attempt is made to consider extreme cases, the purpose being solely to get a view of the situation of the bulk of the workers, and of significant departures from average conditions.

With respect first, then, to hourly earnings, the bulk of the workers -- in each case roughly 95 per cent -- were subject to the following limits, according to their color and sex: negro women, 20 to 20 cents; negro men, 25 to 50 cents; white women, 25 to 60 cents; and white men, 30 to 90 cents. The order here is the same as that indicated by the averages per hour, which ran, respectively, for the same groups: 31, 37, 41, and 55 cents. Earnings were most diversified in the highest-paid group, most uniform in the lowest.

A point to attract attention is that a significant number (5 per cent at least) of the negro women were receiving less per hour than the lowest minimum prescribed by the Code. (\*\*) In all sexcolor classes, some infraction of the 25-cent minimum appear, but only in the case of negro women are they considerable. Almost all these subminimal women were hand stemmers, and only a small number of them were classified as either slow or substandard.

Affected by length of week as well as by hourly rate, weekly earnings naturally range more widely than hourly. On a weekly basis, the bulk of the workers (again, close to 95 per cent in each of the several groups) came within the following limits: negro women, \$4 to \$15; negro men, \$6 to \$18; white women, \$6 to \$20; and white men, \$10 to \$35. These ranges indicate that those near the top of the group earned 3 or 4 times as much as those toward the bottom. If the limits are narrowed to the belt of highest concentration, they become: \$8 to \$14 for 75 per cent of negro women;

<sup>(\*)</sup> The weighted average weekly earnings by company groups ran, in detail, as follows:

				,		
		All Companies	Big Three	Second Six	Small	Snuff
All		\$14.50	\$14.44	\$14.13	\$13.67	\$19.19
White	Men	19.66	20.03	18.18	20.25	23.67
White	Women	13.51	14.36	12.55	12.04	14.97
Negro	Men	13.46	13.65	12.71	10.82	14.90
Negro	Women	10.92	11.33	8.34	8.57	(a)

<sup>(</sup>a) The snuff company average for negro women was \$10.75 but less than a half-dozen were reported.

<sup>(\*\*)</sup> Since frequencies cover only the unweighted figures, proportions in low groups may be somewhat higher than indicated in this section.

\$10 to \$18 for 80-odd per cent of negro men; \$10 to \$16 for about 50 per cent of the white women; and \$11 to \$24 for the same proportion of white men. It will be observed that the earnings of white workers are less highly concentrated and more diversified than those of negroes.

The lowest earnings attached for the most part to women in a few occupations. Three-fourths of all workers in those particular occupations receiving less than \$8 per week -- and about 8 per cent of the entire force did receive less than that -- were white and negro women engaged in largest numbers as pickers, searchers, or hand stemmers. Again only a minor proportion were classed as slow or substandard. In other instances very low earnings, seemed to reflect either part-time work by a few employees in occupations normally higher-paid, or casual work (as in the case of floor hands). For no group were they as marked as for negro women, almost 20 per cent of whom earned less than \$8 for the week.

As respects length of work-week, employees apparently suffered more from under-employment than from excessive hours. Less than 5 per cent worked more than 40 hours, and less than 1 per cent worked 48 hours or more. (\*) On the other hand, a fifth of the men and almost two-fifths of the women worked less than 32 hours.

Yet while a large portion of the negro women were under-employed, another sizeable group had particularly long hours, running from 41 to just under 48. For the most part, the women working these longer hours were pickers, searchers, and hand stemmers -- occupations characterized, as already noted, by low earnings despite the long hours.

## 11. Manufacturers Versus Independent Leaf Dealers

It has just been indicated that the outstanding instances of low hourly rates, long hours, and low weekly rates occurred in occupations connected with the earliest stages of manufacture -- primarily with stemming. Stemming operations are carried on also by independent leaf dealers; and in order to compare their rates with manufacturers' rates for similar operations, payroll data for leaf-dealer employees were collected in the spring of 1935 and again in the fall. While compilation of the spring data has been delayed, the fall data, covering eleven dealers in Virginia and North Carolina, are sufficiently in hand to permit some comparisons of hours and earnings in the two industries.(\*\*)

<sup>(\*)</sup> While the figures may include some cases of Code violation, the various exceptions permitted to the 40-hour week would suffice to account for the small proportion of employees indicated.

<sup>(\*\*)</sup> The fall data have this advantage, that special arrangements were made to keep a record of hours worked. Since the industry pays piecerates largely, little information on hours and hence on hourly rates was secured in the spring.

Employees of independent leaf dealers fall into three main occupational categories: floor workers, pickers and searchers, and hand stemmers. In leaf dealers' and also in manufacturers' plants, negro men predominate among floor workers, while negro women are the predominant class in the other two occupations. Average conditions with respect to hours and earnings for these employees in the Code industry in March 1935 and in leaf dealer plants in October 1935 are compared in the following table:

Manufacturers' versus Leaf Dealers' Plants: Hours and Earnings in Selected Occupations in One Week

Occupation and Industry	: Average::	Per Capita: Earnings : (dellars):	Hourly
Floor workers, negro male		:	
Tobacco manufacturers Leaf dealers	34.8 49.2	12.99 10.82	37.0 22.0
Pickers and searchers, negro female	•		
Tobacco manufacturers Leaf dealers	: 33.1 : 39.8	9.72 5.39	29.3 13.3
Hand stemmers, negro female	:		
Tobacco manufacturers Leaf dealers	34.0 39.1		30.8 13.2

Earnings of leaf dealer employees were obviously exceedingly low and their hours long as compared with those in the same occupations in manufacturers' plants. (\*) It is contended that the dealers, who stem chiefly for export, must have cheap labor if the business is to remain in this country. Their stemming operations, conducted for the most part during the green-leaf season, are concentrated in a few months of the year and offer supplemental employment to farm laborers or attract casual workers. Hence it is not to be supposed that the two labor forces are directly competitive. Yet the existence of such extremely low rates for work of the same general character undoubtedly depresses the market for all workers in these occupations.

# 12. Comparisons with Other Times.

While surveying wages and hours in the Code industry for March 1935, the Bureau of Labor Statistics gathered figures for March 1933 also and -- by a later follow-up -- for September 1935, in order to permit comparison of conditions under the Code with

<sup>(\*)</sup> As respects earnings, at least, the different months involved do not account for the difference in levels, since (as will be indicated later) employees in manufacturers' plants had higher earnings in the fall than in the spring.

conditions prior to the inception of the National Recovery Administration and subsequent to the termination of codes.

Other materials available include: a survey by the department of the cigarette branch of the industry in the spring of 1930; returns for all branches of the industry in June and November 1933, secured by a Mational Recovery Administration questionnaire during the early veriod of Code discussions; a special study of man-hour employment and earnings in 1933, made by the Bureau of Labor Statistics in cooperation with the Bureau of the Census; and the partial survey, conducted for the National Recovery Administration by the Bureau of Labor Statistics of wages and hours during July 1934 in six occupations in the cigarette, smoking, and chewing tobacco industry in Virginia and North Carolina. (\*) While the diverse scope of these materials precludes analysis of changes in the volumes of employment, inferences can be drawn as to changes in hours and earnings over the period covered -- 1930, 1933, July 1934, and the spring and fall of 1935.

The average employee in cigarette manufacture was distinctly better off in March 1935 than he had been in March 1933 or 1930. As against 1930, his weekly earnings had improved slightly and his work-week had shortened materially. As against 1933, his weekly earnings had increased by one-half, with only a moderate increase over the very short hours then obtaining. His better position was thus due to a sharply higher hourly rate combined with a short work-week. (\*\*)

In a similar way, the average employee in the total Code industry was distinctly better off in March 1935 than in March 1933, since his hourly and weekly earnings had both increased materially though the work-week continued very short. For white workers and negro the dollar gain was about the same, but on a vercentage basis the negro gain was of course much larger, being reckoned from a lower base. The same things hold true of male workers as contrasted with female, the women faring relatively better than the men, though their dollar gain differed but little. The greatest advance accrued to negro women, the group in the most disadvantageous position, with average weekly earnings in March 1933 of only \$6.50. (\*\*\*)

<sup>(\*)</sup> It might be thought that the monthly figure regularly published by the Division of Employment Statistics of the Department of Labor on employment, payrolls, and earnings in the chewing and smoking tobacco and snuff industry could be combined with its unpublished figures for the cigarette industry (as distinct from cigars and cigarettes combined) to secure a continuous record of fluctuations in employment and earnings in the Code industry. In fact, however, this cannot well be done, since the Division's figures for cigarette manufacture omit some very important plants, and have been strongly influenced in recent years by returns from a single company with highly seasonal stemming operations. The Division now has under advisement the improvement of its cigarette sample.

<sup>(\*\*)</sup> Comparisons are based on unweighted averages of all companies reporting in each period. The Bu. of Labor Statistics, 1930 study appeared in its Bulletin 532, "Wages and Hours of Labor in the Cigarette Manufacturing Industry, 1930".

<sup>(\*\*\*)</sup> Figures used are weighted averages for all reporting plants.

Comparison with November 1933 again indicates a gain in weekly earnings for March 1935, not due this time, however, to a large difference in hourly rates but rather to a fuller work-week. Hours in November 1933 were abnormally low because of reduced manufacturing activity. Hourly rates, which had been increased by the substituted President's Re-employment Agreement, under which the industry was then operating, are indicated as not much lower than in dicated as not much lower in March 1935. For all employees, the figure is 41.0 cents per hour for November 1933 against 41.3 cents for March 1935. The comparison is not entirely valid, however, since the November 1933 average does not include employees in some of the lower-paid preparatory processes that are represented in March 1935 figure. (\*) For the full year 1933 average hourly earnings in cigarette, snuff, chewing and smoking tobacco manufacture as defined by the Census have been reliably indicated as a little above 37 cents.(\*\*) In July 1934, with the President's Re-employment Agreement standards still being observed, hourly rates in six occupations in the cigarette industry averaged from 2 to 6 cents below those of the Code month, March 1935. (\*\*\*)

The evidence thus indicates a definite, if natural, improvement in the position of workers in March 1935 as against prior years, -- an improvement represented by larger hourly and weekly earnings with generally short hours. Summary figures to show whether the gains achieved were maintained after the termination of the Code are not available, but inspection of the figures for individual plants leaves no doubt that as late as September 1935 at least they were maintained.

Weekly earnings of workers in the industry as a whole were unquestionably larger in September than in March. In part this increase was the result of longer hours attendant on greater activity in September, but it reflected as well numerous increases in hourly earnings. In snuff plants, hourly earnings tended to decline, and among small companies decreases were somewhat more numerous than increases. But in Second Six and particularly in Big Three plants, where the bulk of the workers are employed, advances quite clearly predominated.(\*\*\*\*)

<sup>(\*)</sup> Results of the NRA questionnaire are presented in Chapters VI and VII of a report by Donald Y. Yakeley, Research and Planning Division, "Cigarette, Snuff, Chewing and Smoking Tobacco Manufacture", September 21, 1934. The figure of 41.0 is computed from his separate items for the different branches of the industry.

<sup>(\*\*)</sup> Computed from data in the report by Arthur F. Beal of the Bureau of Labor Statistics, "Man-Hours of Employment in 35 Manufacturing Industries in 1933", p. 5.

<sup>(\*\*\*)</sup> See the report of the Bureau of Labor Statistics, "A Study of Six Occupations in the Cigarette, Smoking Tobacco, and Chewing Tobacco Industries in Virginia and North Carolina, July 1934". The report also covers earnings in chewing and smoking tobacco manufacture, but does not combine the two branches, so that comparison with the joint figures compiled for March 1935; not feasible.

<sup>(\*\*\*\*)</sup> The check of conditions in September 1935 covered a representative sample of the workers scheduled for March 1935. The approximate size of the sample (as against the numbers scheduled in March) varied as follows: Big Three employees, 20 per cent; Second Six, 40 per cent; small companies, 95 per cent; and snuff plants, 80 per cent.

# 11. Sementisons with Other Industries

Wages in the tobacco manufacturing industry rank low as compared with those paid by manufacturing industry in general. Of the 90 manufactures reported upon monthly by the Division of Employment Statistics of the Department of Labor, only eight (omitting tobacco industries (\*)) reported weekly earnings lower in March 1935 than the \$14.50 paid by the Code industry, and only five reported lower hourly earnings, For all manufacturing industries combined, weekly earnings averaged \$21, for a week 1 hours longer than the tobacco week.

Of the eight industries ranking lower than tobacco, three were down because of an exceptionally short work-week, hourly earnings in each of them being higher than in tobacco. (\*\*) The remaining five not only fell below tobacco on weekly earnings but also were the only industries to report lower hourly earnings. They comprised: turbentine and rosin, cottonseed (oil, cake, and meal), fertilizers, cotton goods, and canning and preserving. (\*\*\*) This low-wage group thus includes three Southern industries, at least two of which — naval stores and fertilizers — employ negro workers largely.

In the four States where the Code industry is chiefly concentrated (Forth Carolina, Virginia, Kentucky, and Tennessee), the important manufacturing industries are, besides tobacco:-cotton goods, !mit goods, railroad repair shops, furniture, rayon, and lumber. (\*\*\*\*) The national figures just referred to indicate for all these competing industries except cotton goods hourly and weekly wages appreciably higher than in tobacco.(\*\*\*) But none of

- (\*). In cigar manufacture also, earnings must have been less than \$14.50. The Division does not publish figures for cigars separately, but reported per capita weekly earnings in cigar and cigarette manufacture combined at \$13.37.
- (\*\*) These three were: shirts and collars, men's furnishings, and cast-iron pipe.
- (\*\*\*) For turpentine and rosin, the statement respecting hour-earnings is based on <u>unpublished</u> figures of the department of Labor, Division of Employment Statistics.
- (\*\*\*\*) Importance is judged by number of wage earners employed in 1933, the latest Census year now available.
- (\*\*\*\*\*) The hourly earnings in March 1935 ranged from 43.8 cents in savmills to 65.2 cents in steam railroad repair shops, and the per capita weekly earnings from \$15.09 to \$26.03, in the same two industries. Excluding railroad repair shops, the upper limit is 51.1 cents per hour and 19.21 for the week, in rayon manufacture.

these manufactures (possibly rayon (\*)) is confined so largely to the South as is tobacco; hence the Northern wage differential influences their over-all figures more strongly than it influences the tobacco over-all.

A comparison confined to the Southern States is plainly desirable, but is difficult because of the scarcity of data. (\*\*) Such figures as are available, however, suggest that when comparisons are restricted to other manufactures in the same area, wages in tobacco manufacture occupy a mid-way position.

To be sure, for all factory workers reported upon in the four States of North Carolina, Virginia, Kentucky and Tennessee, per capita weekly earnings in March 1935 were \$15.50 against a figure of only \$14 for the Code industry in the same States. (\*\*\*) The general hourly wage in this area in March cannot be figured, since man-hours worked are available by States from May: 1935 only.

- (\*) In 1933 a little less than 70% of the wage earners reported by the Census in "Rayon and Allied Products" were in Southern States, against about 80% of tobacco (not including cigar) workers so located in March 1935.
- (\*\*) For rayon, lumber, and hosiery and underwear, 1932 is the latest year covered by "Wages and Hours" Bulletins of B. L. S., Department of Labor; and for furniture, 1931 is the latest year covered. According to the sections in NRA concerned with these industries (Industry Studies and Statistics) NRA has no information on wages in Southern States later than that given in these Bulletins, except in the case of lumber. For lumber, the Code Authority supplies data on average hourly and weekly wages in the "South" for July and December 1933 and the 10-month period January-October 1934 -- the South comprising in this instance 10 southern-pine States. Because of the unlike periods covered, and the minor influence on the aggregate of the two tobacco-manufacturing States included (North Carolina and Virginia), no use of these figures is made here. Reports of State Departments of labor and industry might yield useful information, but to examine them in the time allotted this study has been impossible.

For railroad repair shops, current hourly wages in the Southern region can be computed from monthly reports of the Interstate Commerce Commission. The type of labor employed in this industry, however, appears unsuitable for comparison with labor in tobacco manufacturing.

(\*\*\*) The figure for all factory workers is computed from the unweighted aggregates of number employed and payrolls, published by the Division of Employment Statistics. The Division has estimated its coverage of factory workers in the several States as follows: North Carolina, 74%; Virginia, 60%; Kentucky, 44%; and Tennessee, 50%.

Against particular industries, however, the story is somewhat different. In May 1900 the hourly earnings in this area of workers in importance manufactures other than tobacco ran as follows:

Hours and Earnings of Factory Workers in Specified Industries in the Four States of North Carolina, Virginia, Kentucky, and Tennessee, May 1935.

Nanufacture	: Average : Hours : Weekly : Hourly : Worked : Earnings : Earnings :
Cotton goods Knit goods Furniture Rayon and Allied Products Sawmills	36.1 33.2 11.99 42.6 34.6 14.75 35.9 38.1 13.68 50.4 38.3 19.32 31.1 32.9 10.23

Source: Computed from figures furnished by the United States Department of Labor, Division of Employment Statistics, on aggregate employment, payrolls, and man-hours in each of these industries in the four States specified. Measured against average employment reported for 1933 the size of the sample is indicated as ranging from 25 percent for saw mills to complete coverage for rayon.

If against these figures are matched the March figures for tobacco in this area — hourly earnings 40 cents, hours worked 35, weekly earnings \$14 — it appears that on both an hourly and a weekly basis earnings in the Code industry were higher than earnings in cotton goods, furniture, and sawmills, (\*) though lower than earnings in rayon and knit goods. The difference in months involved may affect relative position with respect to weekly earnings but is unlikely to affect it with respect to hourly.

For cotton manufacture, by far the largest employer of factory labor in this area, a few supplementary figures are at hand, tending to confirm still further the indications already given that cotton-mill rates fall appreciably below the tobacco rates. In the "Textile Report" made by B. L. S. early last year, average earnings per hour in cotton mills in the South were reported for August 1934 (the latest month covered) at 34 cents for men and 32 cents for women. Corresponding averages for tobacco factories in the South in March 1935 were: man, 45 cents; women, 35 cents.

<sup>(\*)</sup> Perquisites may affect the money wages paid in sawmills; it will be noted also that the sample for this industry is comparatively small.

A collateral fact highly important to comparisons of this sort, however, is the relative burden of labor costs in different industries. It has frequently been emphasized that in the tobacco Code industry this burden is exceedingly low.

# 14. Remarks on Particular Branches of the Code Industry.

The method of compiling the wage and hour returns does not permit a clear-cut distinction among the several bramhes of the Code industry — cigarettes, smoking tobacco, chewing tobacco, and snuff. This is so for two reasons: first that in many cases it was not possible to identify the branch to which particular employees belonged; and secondly, that in classifying the returns from multiple-product plants, the Department followed in general a standard practice of allocating all employees within a plant to that branch of the industry indicated by the primary product of the plant. (\*)

From information supplied by the companies themselves, it is possible to see how far the results produced by this system of classification differ from those produced by a more exact assignment of employees according to their actual duties. The companies own statement, taken as a whole, indicated that in March 1935, 51 percent of all employees were engaged in operations connected with cigarette manufacture and 49 percent in operations connected with manufacture of chewing and smoking tobacco and snuff. (\*\*) The office classification, however, threw 61 percent of the employees to the cigarette branch and only 39 percent to the other two branches. Since the snuff returns were on the whole pretty distinct, the indicated disproportion would be still larger as between cigarettes and cheving and smoking tobacco. It is also unfortunate, in view of their separation in the Code and their diverse trends, that separation of chewing tobacco manufacture from smoking tobacco manufacture was found impractical

Yet although the method of compilation blurs the picture as between industry branches, some general differences are plainly indicated. Employees in the snuff branch of the industry have unquestionably longer hours and higher weekly and hourly earnings than those in any other branch. Hence the appropriateness

<sup>(\*)</sup> In the outstanding case of the R. J. Reynolds Company, it modified this rule by allocating the departments within a plant rather than the entire plant.

<sup>(\*\*)</sup> The necessary information was secured, by letter of personal visit, from all the Big Three Companies, from five of the Second Six companies, and from three other (including two of the snuff) companies. In the case of small companies it is improbably that differences between B. L. S. office allocation and company allocation are important. Hence for these companies the tabulated employment is used in compiling both pairs of aggregates contrasted above.

of prescribing for this branch wage minima as low as those prescribed for smoking tobacco manufacture, as was done in the Code, is not apparent. Employees in the digarette branch of the industry, in turn, generally rank above those in smoking and chewing tobacco manufacture with respect to both hourly and weekly carnings, though exception on one score or the other might be made of negro women and white men.

Finally, it is probable, from the averages displayed by small companies engaged largely in chewing tobacco manufacture, as well as from other evidence, that this declining branch of the irdustry pays the lowest wages.

TOTE: A list of the basic tables received from the Bureau of Labor Statistics on number of employees, hours, and earnings in the cigarette, snuff, chewing, and smoking tobacco manufacturing industry, together with copies of tables one through seven, are listed as appendix 6 of this chapter are in the Tobacco Study Unit files of the LRA Records Section of the Department of Commerce and are not here reproduced. Tables 8-10, which in their present form would involve disclosures, are not included but have been returned to the Department of Labor, Mages and Hours Division.

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# 15. Annual Earnings and the Number of Weeks Worked by Tobacco Manufacturing Employees in 1934.

In addition to weekly earnings, the agents of the Bureau of Labor Statistics secured also, so far as practicable, data on annual earnings and on number of weeks worked. Although the industry coverage is far less complete for these items than for the weekly figures, and although the data pertain only to employees working in 1934 who were also working in March 1935, yet because of the great interest attaching to them, such data as were secured are summarized below. The figures pertain to 1934, the latest calendar year preceding the field survey.

Tobacco workers employed by manufacturers who came within the scope of the tobacco manufacturing Code averaged 47.4 weeks of work in 1934 for which they received an average of \$700. These averages are based on the records of 7.815 male and female workers, both white and colored taken from the pay roll records of 16 plants by agents of the Bureau of Labor Statistics. Figures just released by the Bureau of Labor Statistics (March 1935) reveal that the annual earnings in the motor vehicle industry as a whole were exactly \$900 in 1934, while the average number of weeks worked was only 37.7 in the year.

Employees in the cigarette branch of the tobacco industry worked more weeks and had higher annual earnings than those in the combined chewing and smoking tobacco and snuff branches, averaging 48.2 weeks and \$705 against 44.9 weeks and \$682 for the workers producing chewing, smoking, and snuff. On a sex-color basis, cigarette workers have the advantage over chewing, smoking and snuff workers in that they averaged from 1.4 weeks (white males) and 6.8 weeks (white females) more of work per year. However, this advantage does not follow through the annual earnings of the various sex-color groups, because the average annual earnings of white females in the cigarette industry is the only average annual figure exceeding the annual earnings of the sex-color groups of chewing, smoking tobacco and snuff workers.

It becomes of interest to compare the weeks worked by tobacco employees and their annual earnings with those of the automobile employees, who, on the average, rank among the highest paid for time worked in all manufacturing industries. For this purpose, figures for only white male and white female tohacco workers will be used, since the automobile industry does not recognize a color problem.

In the tobacco manufacturing industry, all white males averaged 49.4 weeks of work for which they received on the average \$1,048. In the cigarette industry, they worked 49.7 weeks for \$1,018 and in the smoking, chewing and snuff 48.3 woeks were worked for \$1,170. Opposed to these averages, the male workers in the automotive industries worked 37.8 weeks during which time they averaged \$923. There was only a 0.7 week differential in the automobile industry between the male and female workers, whereas in the tobacco industry white females worked on the average four weeks less than males. Thus, the length of the work year for white females in the tobacco industry exceeded that of females in the automobile industry by more than eight weeks. All white females in the tobacco industry averaged 45.4 weeks of work for which they received

an average of \$617; they worked 47.2 weeks in the cigarette industry for \$642; and in the smoking, cheving and snuff industry they averaged 40.4 weeks and received \$546. The females in the automobile industry worked only 37.1 weeks for which they averaged \$647 or approximately one per cent more than all white females in the tobacco manufacturing industries.

While the foregoing discussion gives a broad view of the position of tobacco manufacturing workers over the year, it does not reveal any of the special characteristics pertaining to the relative number of workers employed full or short time, more of those actually earning relatively high or low wages for the year. The following discussion, though brief, will throw some light on these points.

Of all tobacco workers covered by these data 72% were employed 50 weeks or more in 1934. White males were particularly fortunate in that 85 percent of them fell in the above class. The grown also included 69.6 percent of the colored males, 69.3 percent of the colored females, and 61.7 percent of the white females. Less than 10 percent of the workers had under 26 weeks of work, with white males and colored females having the fullest employment. White females showed larger percents in almost every two week interval up to 36 weeks of work in the year than any other group. Very little variation from the above conditions was found to exist as between digarette workers and the rest of the tobacco industry.

Annual earnings reveal more variation as between the sex-color groups than weeks worked. For example, 25.2 percent of all workers earned less than \$500, while 5.1 percent of the white males, 23.1 percent of the white females, 21.9 percent of the colored males and 30.1 percent of colored females constituted the group. At the other extreme 19.0 percent of all workers earned \$900 or more. This group consisted of 57.2 percent of the white males, 2.3 percent of the colored males, and of 6.1 percent of the white females. No colored females earned as much as \$900.

The most concentrated group of workers in the industry as a whole appeared to earn \$400 and less than \$800, 61.0 percent of all workers having annual earnings between these amounts. White males are concentrated between \$700 and less than \$1,100, 47.3 percent, while 83.3 percent of all colored males earned \$400 and less than \$800. Eighty percent of the white females earned \$400 and under \$900 while 95.2 percent of the colored females earned \$200 and less than \$700.

In the cigarette industry 12.0 percent of all workers earned less than \$400, while in cheming, smoking and snuff 12.7 percent earned less than \$300. On the other hand, 36.3 percent of all workers in cigarettes earned \$800 or more while only 24.3 percent of the workers in the other branches fell in that classification.

As between the cigarette branch and snoking, cheming, and snuff, the annual earnings of only colored males appear to have common characteristics, that is, 83.6 percent of those in the cigarette industry and 82.1 percent of those employed in the other branch earned \$400 and under \$800.

The sex-color groups in cigarettes show 62.2 percent of all white males earning \$600 but less than \$1,100; 95.8 percent of the white females earning \$400 and under \$900; and 84.1 percent of the colored females as having earned \$300 and less than \$600. Of the 36.3 percent of all workers who earned more than \$800, the group consisted of 68.3 percent of all white males, 4.8 percent of all colored males, and of 14.9 percent of the white females, no colored females having earned that much.

The data for cheving, smoking tobacco and snuff workers show concentrations of white male workers and colored female workers considerably above those of the similar groups in the digarette branch. The white males who earned \$900 but less than \$1,400 in this branch were 49.3 percent of all white males, while in digarette manufacture the corresponding group was only 12.7 percent. Of the colored females, 73.3 percent working in chewing, smoking and snuff earned \$400 but under \$600 while the corresponding group in digarette manufacture was 60.1 percent. Of the 12.7 percent of all workers who earned under \$300, the group consisted of 5.2 percent of all white males, 3.4 percent of all colored males, 22.3 percent of all white females, and 13.1 percent of the colored females studies in the chewing, smoking and snuff branch. At the other extreme 78.6 percent of all white males, 3.2 percent of the colored males, 17.0 percent of the white females, and but 0.3 percent of all colored females made up the group earning \$800 or more in the year.

One defection in the chewing, snoking and snuff annual earnings data seems of considerable importance. It is registered in the distribution of the annual earnings of the white females for whom this item is reported. Some 18 percent of them are shown as having earned \$100 in 1934. Inspection of the constituent returns, however, discloses that practically all these white vomen were employed during the stemming season by a single plant located outside the four Southern States.

Since it has already been pointed out that conditions in snuff manufacture are highly dissimilar from those in chewing and other tobacco manufacture, it is unfortunate that a more complete breakdown by industry branches has not been practicable in this discussion. Possibilities of disclosure, however, forbade separate presentation of the snuff figures.

Note: Tables covering this section are not in the files of the National Recovery Administration but in the files of the Bureau of Labor Statistics.

#### B. COMPANY POLICIES OF WELFARE WORK

#### 1. Introduction.

The policies of the dominant companies in the tobacco industry respecting welfare work, whether significant or insignificant in appraising the total effect of the industry's industrial policies, are nevertheless essential to a broad survey of the industry. Welfare work is sometimes a manifestation of continuing paternalistic attitude toward industrial relations. Since the wage income of unskilled workers is inadequate to provide desirable standards of living, especially when satisfactory wage income is known to be well within the capacity of most of the tobacco industry to pay, it becomes necessary to appraise both the purpose and effect of such welfare work to determine whether or not it is a factor in resistance to the development of wage income essential to desirable living conditions. In what follows, the attempt is simply to state the welfare policies of these companies. (\*)

The following description of company policies as reported by their central offices points out the extent to which they have engaged in welfare work. The scope of such work, it will be noted, is not insignificant. Five of the eight companies have organized welfare systems; one maintains contact with a small group of employees; the other two have very limited welfare policies.

#### 2. Vacations

As a general rule, the companies studied gave their salaried employees (office) two weeks' vacation with pay. Of the eight companies, four reported that such vacations were granted after one year's service; two companies gave them to employees with six months' service. In one company the vacation period varied from one to two weeks; in another the salaried employees got one week with pay and one week without pay. Two companies extended the paid vacation privilege to foremen who were working on a salary basis.

Four companies reported that their wage earners could get vacations without pay upon request. One company closed at the end of the year for overhauling and this served as a vacation period (without pay) for its wage earners. Another company gave

<sup>(\*)</sup> Letters were sent to the nine large tobacco companies listed herewith: American Tobacco Company, Axton-Fisher Tobacco Company, Brown & Williamson Tobacco Company, Larus & Brother Co., Inc., Liggett & Myers Tobacco Company, P. Lorillard Company, Philip Morris & Company, Ltd., Inc., R. J. Reynolds Tobacco Company, Scotten Dillon Tobacco Company. Eight responded, and the description is based on their answers and represents their policies.

ten days at Christmas time, also without pay, but with a cash present. Some wage earners in one company were allowed one week with pay; these were in key positions.

#### 3. Sich Leave

Four companies stated that they gave sick leave with pay to salaried employees, but they had no fixed policy as to how much time was allowable on this basis. In a fifth company, sick leave was given only to office employees (the policy as to time being indefinite), and in a sixth, supervisory foremen were included as well as office workers; here also the time allowable for sick leave was indefinite. Two companies paid their salaried employees through the entire period of sickness. There was one company which reported granting sick leave with pay to wage earners when, in the judgment of the company, individual conditions warranted such leave.

#### 4. Insurance

Six of the eight companies provided some form of insurance for at least some of their workers. In two cases, the insurance entended to all employees and was voluntary and contributory — the employee paying part of the cost and the employer paying part. It covered life and disability. In addition, accident and sickness benefits were paid by one type of policy; while in the other, sick benefits and hospital bills were handled through a welfare association financed jointly by the workers and the company.

Two of the companies paid the entire cost of insurance with no contribution from employees. One, which had a group insurance policy for total disability or death, covered all the white workers, but not the negroes. The other plan was not, strictly speaking, insurance, but in the event of the death of an employee earning not more than \$50.00 a week, the company paid to his beneficiary an amount not exceeding \$1,000.

In the other two companies, insurance systems were limited to the better paid workers. The officials of one were covered by a voluntary contributory group life insurance policy. The other extended this privilege to foremen and their superiors; in this case there was also a contributory annuity scheme available to white male salaried employees.

#### 5. Pensions

While six of the eight companies granted pensions to workers, in only one instance were definite standards set up as to eligibility. The other five companies gave pensions in individual cases, presumably passing on the merit of each case as it came up. One of these five reported that the amount to be paid was worked out with each employee, on the basis of length of service; both wage-earners and salaried workers grown old in their

employ were eligible. The policy of another company was to grant pensions to incapacitated persons "who have rendered faithful service"; this pension was not less than \$30.00 a month, but its actual amount and the eligibility therefor were judged by the individual case.

Men of 65, women of 60, and permanently incapacitated persons, if they had served the company for twenty years continuously, were eligible for pensions under the one formal pension plan encountered among the eight tobacco companies studies. The amount received was based on average earnings and also on length of service, but was not to be less than \$6.00 nor more than \$40.00 a week. However, the right was reserved "to terminate . . . the plan . . . when in the judgment of the Board of Directors it shall have become expedient to do so".

# 6. Medical Services

Three companies gave no medical care at all. One company gave its employees physical examinations; another had a doctor on call and also used the city ambulance. However, in the other three companies, workers could avail themselves of organized medical programs. In one which had doctors in daily attendance and always on call (in all plants except one), the employees were given free medicine, free optical service, and if they earned \$5,000 a year or less, surgery bills were paid by the company. The doctors' services could also be used in the homes of the workers. Employees were taught the value of preventive medicine; they went through a physical examination before being hired, and could take periodic examinations thereafter.

A visiting nurse was used by another company to follow up cases cared for in the plants (which were equipped with emergency hospitals and dispensaries, with full-time nurses in attendance). If, upon investigation, it was deemed necessary, free hospitalization was given.

A completely equipped central medical department was maintained by the eighth company. Two full-time doctors, a full-time dentist with an assistant, twelve nurses, and a technician were employed, and the laboratory was equipped for X-ray, fluoroscopy, and various tests. Medical and dental care was given to all employees. Physical examinations were given before hiring, and vaccination was compulsory. The policy of the company was to carry on educational work in the medical field; a typhoid immunization campaign caused thousands of employees to take preventive doses, and examination of pregnant women employees brought 100% cooperation from the women affected, the company reported. The medical department also gave information on prenatal care and on contagious and communicable diseases. pitalization for employees and their dependents was arranged with the local hospitals, through a system of weekly deductions from wages after the employee returned to work. This company

is at the present time working on a plan which will give their employees free hospitalization to the value of \$90.00 in any one year, and will pay laboratory fees and operating room expenses up to \$15.00 in that period.

### 7. Safety Program

Safety programs varied widely, depending on the size of the company. In only one plant was there no organized safety program. Educational and preventive work was handled by simple set-ups of committees and by regular weekly inspections, lectures, prizes for suggestions, posters, councils, and interdepartmental competition in the larger companies. Four companies used air-conditioning. Dust-control devices were used by two companies, and respirators by a third.

First-aid care likewise varied. Four companies had first-aid rooms or fully equipped plant hospitals in their plants. Three of these also reported that they had full-time nurses on duty there. One company had a room and bed for those who were incapacitated at work, and a first-aid kit in each department which was in the care of department managers, who were given instruction in first-aid. In another, the foremen gave first-aid. Practical nurses were hired in the plants of a third, with a doctor on call. One company had no provisions for first-aid in its plant.

# 8. Recreational Activities

Recreation for their employees was organized in some form by all but three companies. Baseball was the popular sport; five companies had teams in at least some of their plants. Three companies also offered bowling to their workers; basketball and volleyball were other sports mentioned. One employer had arranged group rates at the local Y.M.C.A.'s for both white and negro employees.

#### c. Educational Work

Educational work was not so well organized as recreation. Only three companies did anything in this field. One firm furnished supplies for classes. Another reported that this type of work varied, employing not only their own methods, but "cooperation with outside organizations". In one plant of that company, this cooperation took the form of arranging group rates at night school.

Education in public health, as typified in the campaigns carried through by one company, has been discussed in the description of their medical service given previously. This same company sponsored an engineering club for white workers in mechanical divisions (which fulfilled social as well as educational functions), and once a week during the noon hour religious services were held in the various departments, followed by group singing.

#### 10. Cafeterias

Cafeterias were maintained by six of the companies reporting, and one furnished a free lunch to its employees. A second gave a hot meal to salaried employees, and coffee free to factory workers. Other companies did not have cafeterias in all their plants, but where they did have them, two remarked that they were run on a non-profit basis.

#### 11. Other Welfare Work

In addition to the above services, the different firms engaged in various other activities. One firm gave all its employees at Christmas a cash present, averaging \$12.66 last year (1935), and another gift. Two companies said that they helped "worthy employees" — in one case loaning them money without interest. One company also paid funeral expenses of employees in certain cases. Company housing was mentioned by one employer; in this instance the rent was applied against the purchase price.

#### 12. Examples of Telfare Policies

In connection with medical care, two companies were in the fore-ground in giving their employees free service. The American Tobacco Company maintained hospitals in all its plants but one, with a full-time nurse and doctor in daily attendance and on call at any time; the company paid for surgery bills, gave free medicine, care of the eyes, and similar services. Sick leave for both salaried employees and wage-earners was determined on the basis of individual conditions.

The system of care for health of the employees of the R. J. Reyholds Tobacco Company (described as the eighth company under Section 6 on Medical Services was but part of this company's organized welfare policy. The joint contributory system of insurance -- covering sick benefits, disability, and death; the standardized pension plan -- the only one found in the industry; the provisions made for recreational activities; the excellent first-aid system with a graduate nurse in each plant; -- such provisions mark the company's welfare policy as taking in a wider scope than any other in the tobacco industry. Another distinctive feature of its plan is that a fund of \$10,000,000 has been set aside from the surplus of the company and invested in the common voting stock of the company, the regular dividend return on which is made exclusively applicable to the support of the company's welfare program. The company contends that this greatly reduces the pressure of the expense of welfare work against wage levels.

Among the smaller companies, a generous policy was evinced by Larus & Brother Co., Inc. It was this company which paid all its salaried workers in full through any period of sickness; bore the entire cost of insurance for white employees; and gave Christmas presents of money to all its workers.

#### C. MECHANIZATION (\*)

#### 1. Historical

There is, of course, a natural trend in industry towards mechanization. This trend, steadily progressive, has a varying rate of speed, dependent largely on consumer demand, economic pressure, and resultant invention. The cigarette, snuff, chewing and smoking tobacco manufacturing industries have followed this natural trend. They present within their group practically all of its major variations.

Prior to the development of the cigarette industry, the trend towards mechanization among manufacturers of tobacco products was from normal to sub-normal. The excellent development of the cigarette fabricating and packaging machines forced the first highly mechanized department in this industry. Mechanization slowly followed down the line, covering the processes prior to fabrication, but showed no such degree of development as in the finishing processes. Since the large manufacturers of cigarettes were also manufacturers of smoking and chewing tobacco, it was but natural that a considerable impetus should be given to improvement of mechanical equipment in the manufacture of these two products.

The processing of tobacco in the course of its manufacture divided naturally into three sections:

- 1. All operations up to and including the storage of the dried leaf.
- 2. An intermediate section from that point on through processing of tobacco up to, but not including, the final operations of fabrication and packaging, and
- 3. The operations of final fabrication and packaging.

Until a period ending about 1928, the operations of the first section, performed almost entirely by the colored race (in the South Atlantic states), were generally the same for all products. These particular operations were simple in character and the long hours and low wages then in existence acted as a brake on rapid improvement of mechanical processes.

Due to the impetus given to mechanization by cigarette manufacture, the intermediate section showed a varying trend. The concentration of cigarette manufacture among a small number of concerns, and the competition resulting therefrom, forced the construction of economic compact units for cigarette making, both

<sup>(\*)</sup> This discussion of mechanization is based on a field study in the summer of 1935, by a trained factory engineer, F. D. Manning, at that time consultant to this Unit.

For mechanization in the Cigar Manufacturing Industry, see Chapter V.

by the introduction of more modern machinery, and by better flow of the product through the plants by re-design in plant layout and increased use of conveyors.

Prior to the code, most of the large companies making any considerable quantity of cigarettes had already eliminated hand stemming insofar as possible.

The smaller concerns manufacturing smoking and chewing tobacco faced an entirely different situation. With the decline in consumer demand and the larger companies fairly well mechanized, the smaller companies were feeling a new economic pressure and were trying to lower costs, thus speeding up the mechanization trend. Their problem was almost insurmountable wherever volume was insufficient to warrant the use of expensive equipment. The result has been steady concentration of production, as small companies have been forced out.

The snuff industry, with steady consumer demand, no economic pressure, and already well mechanized, was giving no considerable thought to further mechanization.

Except insofar as cigarette smoking displaced other forms of tobacco use, mechanization in the fabricating and packaging section of cigarette manufacture had not resulted in technological unemployment. As a general thing the labor employed in this section, mostly young white women, has been secured from outside as the business has grown.

#### 2. <u>Under the Code</u>

There was a pronouced effect from the code on the mechanization trend.

The most important of the early operations in the processing of tobacco is that of stemming. It is sometimes done prior to storage or the leaf may be stemmed after storage and as it starts in the process of manufacture. For this reason, it is found in both the first and the intermediate sections. In hand stemming, done on piece rate, the effect of the code was the rapid elimination of slow employees whose piece rate earnings did not equal the minimum hourly code rate required.

Except for a small amount of leaf that must be stemmed by hand, machine stemming is practical. A fair basis of measurement of the output of stemming machinery is its comparison with the output of an average hand stemmer in terms of pounds of leaf stemmed per day, with the daily output of a stemming machine in pounds of leaf, divided by the number of employees in the crew.

Measured on such a basis, the older stemming machines in use when the Code went into effect (varying more or less with the product and plant layout), were two or three times as productive as the hand method. None of these older machines rate very

high in mechanical efficiency. Measured by the same yard-stick, some of the newer machines are much more effective, equaling, depending on the type of product, the output of five to six hand stemmers.

Certain large stemming machines are limited in use because of their high cost and their requirement of high volume output. A small type, fully as effective as the large machine, enables the small company to compete in this operation on even terms with the large corporation. There are definite indications that the newer machines are coming into increased use and wherever installed there will be a resulting drop in the number of stemming employees of approximately 75% as compared to hand stemming.

During the last five years, there has been material improvement in drying or ordering machines, in the methods of conveying tobacco, and otherwise processing it. While labor still represents a small percentage of the total cost of tobacco manufacturing, the increase in labor costs resulting from the code accelerated the replacement of equipment of this character. Further elimination of hand labor took place, although to no such extent as in the stemming operation.

Other definite trends toward mechanization (and prior to the fabrication and packaging), are indicated in the increasing use of automatic feeders, re-design of plant layout, and improvements in cutters, the latter approximately doubling the output per machine. All of these developments are resulting in the further elimination of employees.

#### 3. Post-Code Conditions

In fabrication, packaging and final operations, performed almost entirely by the white race, and where the operations are already largely mechanization is limited. Furthermore, the machinery already in place as a whole, including cigarette making, is not under pressure from consumer demand. This condition, of course, does not obtain in all individual companies.

The output of the different types of cigarette making machines may vary widely. Most machines are not run at mechanically normal output, due to the necessity of making a quality product. The mechanical output of cigarettes per machine is not, however, a true measure of output. If, as a basis of operation, the output is determined per operative per minute of the crew required to operate a battery of cigarette making machines, including the making-machine operators, catchers, inspectors and adjusters, a making machine at a relatively low mechanical rate per minute may show the highest output per operative.

There was found to be wide variation in the industry on this particular production cost, and the best operative performance was on a relatively low rate of mechanical output.

The elimination of labor is still proceeding in this section, but is of far less importance than in the intermediate section, not only in the processing of cigarette tobacco, but in smoking and chewing tobacco manufacture.

#### 4. Conclusion

To summarize, the introduction of the code into the Cigarette, Snuff, Chewing and Smoking Tobacco Manufacturing Industries accelerated the normal trend toward mechanization, which is still continuing, as wage levels were found to be slightly higher in the Fall of 1935 than during the code period. The effect of further mechanization will be felt principally in the preliminary and intermediate operations, those performed in the South Atlantic states by the colored race, and will tend directly towards a reduction of their number in the industry. Also, in the fabrication of cigarettes, it is still possible for some concerns to reduce the number of employees on the operation of cigarette making by approximately 40%, this by the addition of mechanical appliances already available, and further adjustments of present standard equipment.

Prior to and during the code period, there has been one notable exception among the large digarette manufacturers to the general practice of eliminating all possible hand stemming. This corporation is spreading out the period of adjustment from hand to machine stemming in a successful effort to prevent unemployment. It offers an excellent illustration of the type of research needed by the industry as a whole, if further distress is to be avoided as mechanization proceeds. Had this been done, much past suffering from the occasional rapid replacement of men and women by machines might have been avoided.

It is unfortunate that facts covering the proportion of labor costs to total production costs are not available for this study. That labor costs generally represent but a small proportion of total costs is evident.

There has been a decided question as to the advisability of cooperation of any character between members of the industry in discussion of its problems. Insofar as joint effort for greater knowledge of the effects of mechanical performance on technological unemployment is considered, such cooperation is not only justified but essential.

With the present trend toward further mechanization definitely continuing, with labor costs but a small percentage of total costs, the social responsibility toward labor requires a complete analysis of all problems having to do with technological changes.

#### CHAPTER III

#### INTEGRATION WITH AGRICULTURE

#### A. INTRODUCTION

Tobacco is the oldest cash crop in the United States. Its production and position in the economic welfare have bulked large in the commercial and agricultural development of this country from earliest Colonial days.

Its importance is greater than the acreage cultivated or the cash valued received would indicate, because production is localized to certain distinct areas where it is generally the principal source of agricultural income.

Buying methods in the various areas are not satisfactory, but the possibility of constructive change is severally hampered by the inertia of long established tradition and the active opposition of buyers, whose present advantages might be curtailed.

Until 1933 and the introduction of the crop control program of the Agricultural Adjustment Administration, the lack of a suitable sense of the mutual interests of tobacco growers, workers, and consumers resulted in a complacent attitude by manufacturers towards depressed leaf prices. (\*)

# B. PRESENT METHODS OF SELLING LEAF TOBACCO

# 1. The Loose Leaf and Auction Warehouse

There are several ways in which tobacco is marketed by the grower, each of which is peculiar to a certain area of the country. Flue Cured, Burley, Dark-Fired Virginia, Sun-Cured Virginia, One Sucker, Green River, and Dark-Fired Kentucky-Tennessee are marketed through the auction warehouse system; although an uncertain small percentage of the last three types is also sold at the barn door,

Tobacco, under this method of marketing, is brought to a central auction warehouse by the farmer, and is there sold by competitive bidding to buyers representing tobacco manufacturers, exporters, other dealers, and speculators. The warehouse exacts certain commissions from the farmer for selling the tobacco, which vary in amount with the weight and value of the sale. It is, therefore, to the direct advantage of the warehouse to have tobacco bring as high a price as possible, for the warehouse profits in a direct ratio with the producer.

This system has been in general use for at least eighty-five (85) years and is considerably out-moded in its style of operation. However, in spite of its obvious defects it is the most satisfactory method now existing in this country for the sale of leaf tobacco.

# (a) Rapidity of Sales

One of the most striking disadvantages of the system is the rapidity with which sales are made. During the Code period, sales were limited to a maximum of 360 piles per hour, but it is common to find as many as 400 or more piles sold per hour. Such excessive speed, in selling, forces the tobacco buyer to make a hasty appraisement of the lot offered for sale. and in order to protect himself against increasing his grade average, he bids on, and often secures, certain lots at prices lower than the tobacco should bring. It is impossible to avoid a wide variation in the price of tobacco of the same quality when the transaction is conducted at such a rapid speed; for, irrespective of the degree of skill which the buyer may possess, he cannot fairly appraise the tobacco offered in an elapsed average time of ten seconds or less.

# (b) Importance of Adequate Lighting

Color is one of the most important qualities determining the value of tobacco. This cannot be accurately gauged by the buyer except-under good lighting conditions. It is of decided importance to the farmer that his tobacco be sold in a warehouse which is correctly lighted by windows and sky-lights so that it may be displayed, examined, and purchased under the most favorable conditions. If the farmer's tobacco is displayed in an old warehouse, pressed into service by the lack of space caused by the brevity of the marketing season, where the illumination is unsatisfactory or the sunlight too brilliant, he stands to realize less than his tobacco is worth, because the hurried buyer must protect himself by making a conservative bid when he is in doubt as to the quality of his purchase.

#### (c) The Small Market

Although the development of good roads and the increased use of automobiles and trucks have tended to lessen the number of markets on which tobacco is sold, nevertheless, there still exists a number of small markets. All companies do not have their own buyers on small markets, frequently placing their orders through local buyers, who often handle several accounts. The farmers suffer thereby from a lack of true competitive buying. Furthermore, where there is not a full representation of buyers, and where a considerable amount of the tobacco sold is purchased by commission men, it is possible for a warehouseman and a buyer to combine for the purpose of depressing prices by jointly buying in the tobacco for resale at a higher price on another day or on some other market.

The primary reason for the continuation of these small markets, where warehouses are generally old and poorly lighted, is the short season and market glut, later discussed.

# (d) Mandatory Government Grading

The greatest source of dissatisfaction among farmers is the wide range of prices frequently paid for identical grades during the same sale. Under the present system, it is almost impossible to expect any other condition to exist as a very large proportion of the tobacco offered is not well graded by the farmers.

One solution of this serious problem might be found in compulsory government grading. Although there is a certain amount of grading done now by government agents, it is of relatively minor importance. If, however, competent government experts were employed to grade all tobacco sold and if the average market price for each grade were published daily, the farmer would then have a standard by which he could be guided in the sale of his tobacco.

Mandatory government grading would aid distinctly in familiarizing the farmer with those grades most in demand, and encourage him in such production. Closer cooperation and better understanding between the grower, warehouseman, and buyer would result, and a far more orderly marketing machinery for one of America's greatest agricultural crops would supplant the haphazard one now in use.

The adoption of such a plan would unquestionably mean a considerable readjustment of the Loose Leaf and Auction Warehouse system as it now exists.

# (e) The Short Marketing Season.

The most unsatisfactory feature of the present method of marketing tobacco by the loose leaf tobacco and auction warehouse system is the shortness of the season in which the farmer can dispose of his product. This season has grown increasingly shorter during the past few years. The factors that have caused this shrinkage are another result of the unplanned and archaic system whereby practically all leaf tobacco produced in the Middle and South Atlantic states finds its way from producer to processor.

The tobacco marketing season opens in Georgia about August first and moves progressively northward. A small group of expert buyers take what they want from each market as they move on through South Carolina, and Virginia— ending in Kentucky or Tennessee sometime in April or May.

The short season is caused by the farmer's fear, engendered from years of experience, that the big companies will buy their requirements of what he has to sell during the early part of the market, and that when they have done so prices will break. His creditors, and this is particularly true of share-croppers, are anxious to have their accounts settled before the end of the year.

The disadvantages of this system are obvious. If the farmer does not offer his tobacco before the large buyers have withdrawn their support from the market, he must elect to sell at a loss, or stand the expense and hazards of shipping to a distant market, perhaps in another belt. Because he does not have time carefully to grade his crop, some of his better tobacco is sold with the poorer lots.

Under the present system, labor is worked night and day for a brief period. This is undesirable (1) from management's point of view because of the haste with which purhcases must be rehandled, and the overtime wages involved; and (2) from labor's point of view because employment is for a very limited period of weeks, with a resulting long period of idleness.

This glut of the market could be relieved by lengthening the buying season. The farmer would then have time to grade his crop intelligently. Modern and efficient warchouses would be used and tobacco displayed to better advantage.

Two serious difficulties are recognized in connection wit this lengthening of the season. The farmer would have to readjust his marketing habits, and the purchaser would have to readjust his buying staff to the longer selling period.

Meither of these objectives is impossible of fulfillment. The first could be handled by the cooperation of an active trade association, the Department of Agriculture and the county agent. It should not be difficult to induce the industry to increase the number of buyers if necessary. Such added expense would be more than off-set by consistent grade standards.

# (f) Unfair Trade Practices

Several trade practices indulged in by warehousemen have resulted in considerable harm both to them and the farmers.

#### (1) Subsidized Trucking

One of the most glaring practices is that of employing truckers to induce farmers to sell their tobacco at a certain warehouse. The trucker so employed receives a fee from the warehouse in addition to his drayage from the farmer. If the farmer has not instructed the trucker to deliver his tobacco at a particular warehouse, the trucker may shop around from one warehouse to another until he gets what he believes to be the maximum fee.

By arrangement with a warehouse, the subsidized trucker may also demand an additional fee for placing the farmer's tobacco where it will be promptly sold.

It is the poorer farmer who is unable to transport his own crop to market and who is therefore at the mercy of the trucker.

Warehousemen in their eagerness to secure a volume of business have lost many thousands of dollars through engaging in this sort of competition.

# (2) Rebating

Another unfair method of competition has been the occasional practice by some ware housemen of rebating to prominent growers a part of the fees and commissions.

# (3) Reservation of Floor Space

The practice of reserving floor space for large and influential growers has developed, particularly in Kentucky. Where a marketing season, it is often possible for a large grower to arrange for a favorable display of his crop.

#### 2. The Maryland Market

The method of marketing tobacco in Maryland differs materially from the auction loose leaf warehouse system.

This crop is sold by "closed-bid auction". Under this plan, tobacco is graded and packed in hogsheads on the farm and consigned to a broker or the Maryland Tobacco Growers Association, Inc., which now has a membership of more than 5,000 growers.

In either case, samples of the contents are removed by state inspectors, sealed, and turned over to the consignee for display. Buyers make the rounds of the brokers' offices and submit sealed bids on such tobacco as suits them, after an examination of the samples — all bids being opened at the close of the day. Baltimore is the sole market for Maryland tobacco.

This method of selling tobacco is highly unsatisfactory. There has been much complaint about poor grading and careless and inferior packing on the part of the growers. Such faulty preparation, coupled with the fact that samples are not always representative of the lots offered, has been harmful. Foreign buyers have also complained of poor packing and inferior grading, and these complaints are reflected in decreased purchases. This has been particularly true of France, which until 1934 was by far the leading export market for this type.

If the Maryland growers are to recapture lost foreign markets, and to retail, at a fair price, present foreign and domestic business, they must pay more attention to packing and grading and devise an intelligent plan of marketing to replace that now in use. Buying by samples, drawn from hogsheads packed by the growers, was discarded in Virginia about 1850.

#### 3. The Connecticut Valley Situation

Conditions exist in the Connecticut Valley, with reference to Shade Grown Sumatra type cigar tobacco, that are not found elsewhere in this country, except in small areas in Georgia and Florida. Certain grades of this particular type of cigar wrapper tobacco ordinarily bring the highest prices for any tobacco produced in the United States.

In the production of American type Sumatra Wrapper leaf for use on the cheaper grades of cigars (\*), it has been found necessary to shade the growing plant. (\*\*).

Due in large part to the fact that the cost per acre of raising this type is far beyond that of any other American type, there has grown up a producer-dealer group, better able to finance this problem than the farmer.

Almost 80% of this Shade Grown crop of the Connecticut Valley is controlled by an alert trade association composed of these producer-dealers (\*\*\*). The association aids its members in growing tobacco to the specifications of cigar manufacturers. Non-members of the association are frequently financed by the member dealers.

Apparently, the only other outlet that farmers can find for this type of tobacco is a contract with a manufacturer before the crop is grown.

<sup>(\*)</sup> See Chapter V - The Cigar Manufacturing Industry.

<sup>(\*\*) &</sup>quot;The shades are constructed of poles with wires stretched across to support a covering of cheesecloth.... The effort is to produce a 60 percent shade to protect the plants from direct and intense sunlight, conserve moisture.... From 7,000 to 9,000 acres of tobacco are grown under shade each year in the Connecticut Valley and from 3,000 to 4,000 acres in Georgia and Florida." Circular 249, U. S. Department of Agriculture, page 40, by Charles E. Gage.

<sup>(\*\*\*)</sup> From field study by this Unit, January 1936, data on file.

This method limits the number of grovers and places in the hands of the producer-dealer or manufacturer an unusual amount of control, which, for practical purposes, strips the farmer of a large part of his bargaining power.

# 4. Barn-Buying Methods of Cigar Manufacturers

This subject has been treated in Chapter V, The Cigar Lianufacturing Industry. Except for certain farmers' cooperatives, such as the Wisconsin Cooperative, the method of buying from the farmer at his barn is used not only in connection with the seed-leaf filler type grown in Pennsylvania and Ohio, but also the Connecticut Valley tobaccos other than the shade-grown type.

The "circuit riders" sent out by the large manufacturers and the dealers direct to the farm barns have the farmer at a decided disadvantage. The possible effect of this system on over-production in an industry where there has been steady decline in demand for tobacco leaf is an illustration of the inequitable burden placed on agriculture in the sale of one of its most important commodities.

It has been stated earlier in this chapter that the Auction and Loose Leaf Marehouse system, in spite of its evident deficiencies, is today the most satisfactory method that the farmer has for sale of tobacco leaf. It is not assumed, however, that the auction method is fitted to the sale of cigar types.

### 5. Collusion in Purchase of Leaf

In December of 1935 this unit made a field survey with technical assistance, covering the Flue Cured area only, with direct reference to this question. No evidence was discovered indicating such collusion.

There has been frequent complaint by tobacco farmers that the price of the leaf is depressed by manufacturers and other buyers. Table III, this chapter, shows the yearly average prices (1925-1934) of Flue Cured and Light Air Cured tobacco (the last named including Burley and Maryland). These types represent a large part of the tobacco used in cigarette manufacture. Until 1930, price averages for these types were generally equal to "parity" prices as later determined by the Agricultural Adjustment Administration.

In 1930 and 1931, average prices were very low. The complaint of farmers is based particularly on these two years, together with the opening price levels in 1933. There is no evidence shown in these price levels of any interest by manufacturers or other buyers in the farmers' economic distress.

In 1933, the market for Flue Cured opened at such low levels that farmers forced the closing of the auction warehouses. This resulted in conferences between the Agricultural Adjustment

Administration and the manufacturers, when the manufacturers pledged themselves to support the tobacco market by purchases of agreed amounts at agreed price levels. This program worked out in accordance with the agreement.

The tobacco production control program of the Agricultural Adjustment Administration was in full operation during the buying seasons of 1934 and 1935, and price levels generally during these two years have been exceedingly satisfactory to the farmer.

#### 6. Conclusion

Comprehensive research is needed before the most satisfactory methods may be determined for selling tobacco leaf by the farmer. The task is as much within the province of the leaf dealers and manufacturers as within that of the Department of Agriculture. As in so many other instances mentioned in this study, it is evident that research alone will point the way to prevent continuation of present serious maladjustments.

# . READJUSTMENTS IN DEMAND FOR VERIOUS TYPES OF TOBACCO

#### 1. Shifts in Production Areas

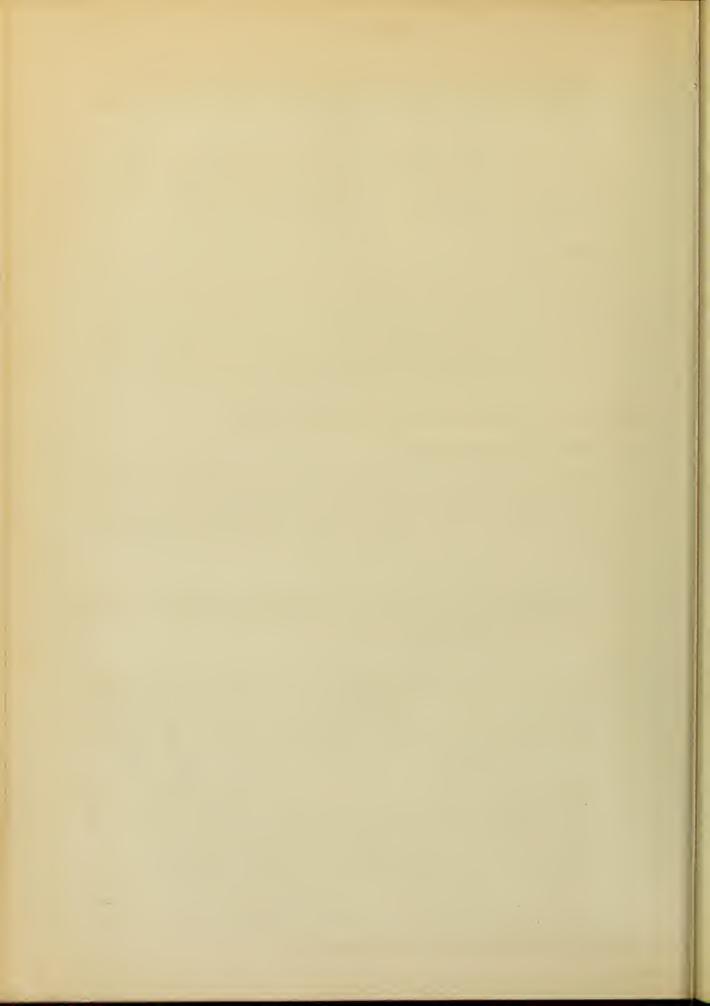
Tobacco is raised on approximately 400,000 farms in the United States, and ordinarily constitutes the principal source of their cash income. Today, approximately 45 percent of total production (\*) is exported. There are six distinct classifications, all of which have special uses and are grown in well-defined areas.

As consuming habits change, both at home and abroad, such changes are reflected in the demand for particular types, and the economic effect resulting there from is concentrated within the special areas where those types are grown.

On the pages immediately following, three tables are shown, covering (1) leaf tobacco production for the United States and for thirteen selected states (1839-1929); (2) the acreage harvested, production, and value, for the United States and the same group of states; (3) the estimated acreage, production, and farm value and price per pound, subdivided by classes.

Table I shows remarkable shifts. Virginia has apparently passed its production peak, and has increased its total production by only one-third since 1839. In Kentucky, the large increase has been primarily in Burley. North Carolina has grown to larger production than any other state. Maryland produced the same amount in 1929 as in 1839, ninety years ago. With the single exception of Connecticut, the states producing the cigar type of leaf — among them, Ohio, Indiana, Wisconsin, and Pennsylvania — show a material decrease, Pennsylvania less than the other states.

<sup>(\*)</sup> Chapter IV - Foreign Trade in Leaf Tobacco.



IEAF TOBACCO: PRODUCTION AT TEN YEAR INTERVALS, 1839-1929, FOR THE UNITED STATES, AND FOR THIRTEEN SELECTED STATES HISTORICALLY IMPORTANT IN PRODUCTION, WITH PERCENTAGE DISTRIBUTIONS 1839-1929 AND 1934.

Production (1000 lbs.)	1bs.)									
•• ••	1839	1849	1859	1869 :	1879 :	1889 :	1899	1909	: 6161	1929
Virginia :	; 75,347;	\$ 56,803;	123,968	37,086	79, 989	48,523	122,885:	132,979:	119,780:	109,500
Kentucky	53,437	55,501:	108,127:105	105,306	171,12182	221,880.	314,288:	398,482?	512,000	389,277
Tennessee	29,550:	20,149:	43,448	21,465	29,365	36,368	49,158	68, 757	112,590:	107,784
Mary land	24,816:	21,407:	38,411	15,785	26,082	12,357	24,589	17,846	19,575	24,750
North Carolina :	16,772:	11,985:	32,853	11,150	26,986	36,375	127,503	138,813	325,248	502,600
Missouri	.890 6	17,114:	25,086	12,320		9,425	3,042	4,425	3, 500	4,050
Ohio	: 5,942:	10,454:	25,093	18,742	34,785	37,854	65,957	.88,603	65,360	40,881
Indiana *	1,820	1,045	7,993	9,325	8,873	7,710	6,882	21,388	17,600	15,112
Connecticut	472:	1,268	6,000	8, 329	14,045	8,875	16,931	28,110	46,950	28,496
Wiscorsin		1:	87	961	10,608	19,389	45,500	46,909	.096 09	48,125
Pennsylvania	325:	: 913:	3,182:	; 3,468;	\$ 36,943:	28,956	41,503:	46,165;	56,760:	49,536
South Carolina:	52:	* 74:	104:	35:	46:	223:	19,896:	25, 583:	77,254:	82,460
Georgia	162:	424:	919:	289:	229:	264:	1,106:	1,486:	14,310:	89,870
cr U.S.	: 219,163:	199,753:	434,209;	34,209:262,735:	472,661:488,	188,257:	868,113:	1,055,765;	1,465,481;	1,524,677

	: 1839 : 1849	1849 :	1859 :	1869	1879 :	1889	1899 :	1909	1919	1929 :	1934
Total Percentage:	99.51	98.61	95.61	92.81	95.31	95.6	36.88	96 • 4 :	97.81	98.0:	98•9
Virginia :	34.41	28.4:	28.61	14.1:	16.91	9.98	14.2:	12.6:	8.2:	7.2:	8.5
Kentucky :	24.43		24.91	40.1:	36.2:	45.4 :	36.2:	37.7:	34.91	25.5:	25.7
Tennessee :	13.5:	10.1:	10.0:	8.2.	6.23	7.4:	5.7:	6.5:	7.7:	7.1:	9.5
* Maryland	11.3:	10.7:	. α α	6.0	5.5	2.5	2.8:	1.7:	1,5:	; 1.6 :	2.1
North Carolina :	7.7:	:009	7.68	4.2:	5.78	7.4:	14.7:	13.1:	22.21	33.0:	38.2
Missouri	4.1:	8 66	5.88	4.7:	2.5:	1.98	* 4°	. 4°	.2.	. p.	sů.
	2.78	5.28	5.88	7.18	7.3:	7.7:	7.6:	8.4:	4.5:	2.7:	2.0
ina		.5	1.88	3.5:	1.9:			2.08	1.2:	1.01	9.
icut		9.	1.4:	3.23	3.0.8	1.88	2.0.	2.7:	3.28	1.91	1.3
	1		1	# 4°	2.2.			4 04 8	4 • 2 :	3.2.	6.
nia		υ Ω	.7:	1.3:	7.81	5.9		4.4:	3.9:	3.2:	1.6
na		1	8	8	1	1	2,38	2.4:	5 5 8 8	5.4:	5.43
Georgia	1:		. 2	1	0	. 1.	* ct		1.0:	5.9:	2.9
Total Production:	••	•	••	••	••		••	••	••	•• •	
lbs.)	219 163	: :219 163:199,753:434,2	434, 209 :2	:62, 735 :4	172,661	488,257	868,113:1	09:262,735:472,661:488,257:868,113:1,055,765:1,465,481:1524,677:1,096,000	.,465,481:	1524,677:1	000,960,
			-		-				200	2000	46 36

SOURCE: Department of Commerce, Bureau of the Census, Stocks of Leaf Tobacco, Bulletin 163, 1927, Pages 16-17 Department of Agriculture, Yearbooks of Agriculture 1931, Page 702, and 1935, Page 453.

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JACREAGE HARVESTED, PRODUCTIO.

IN THE UNITED STATES AND IN EACH OF THE THIRTEEN PRINCIPAL PRODUCING STATES, WITH RELATIVE IMPORTANCE OF ACREAGE, PRODUCTION AND VALUE IN EACH STATE TO THE GRAND TOTAL.

ANNUALLY 1925-1954.

	1925	1926	1927	1928	1929	1930	1931	1932	1933	1934 8/
U. S. Totals (All Types). Acresse Harvested (1.000)	1.751	1.628:	555	1.864:	1.988.	2,112.	5.000		1,757.	725
Production (1,000,000 1bs.)	1,376:	1,289:	1,211:	1, 373:	1,557	1,647:	1,584:	1,026:	1.578:	360-1
Value (\$1,000)	:250,642:251	231,208:250,	50,462:27	274,136:2	82,168:2	11,156:1	29,689:1	4,136;282,168:211,156:129,689:107,821:1		0.937
	,••	••	••	••	••	••	••	••	••	-
North Carolina	••	••	••	••	••	••	••	••	••	
(Types 11-13, 31)	••	••	••	••	••	••	••	••	••	
Acreage Harvested (1,000)	: 547:	565:	659:	728:	736:	766:	698:	470:	687:	514
% Total U.S. Acreage	: 51.2:	34.7:	42.4:	59.1:	57.0:	56.5:	54.9:	55, 5:	59.1:	58.5
Production (1,000 lbs.)	: 580,165:586	386,460:485	85,683:499	99,408:487	87,968:5	85,990:4	79,526:8	293,694:5	,968:585,990:479,526:293,694:538,859:418,802	8,802
% Total U. S. Production	: 27.6:	30.0:	40.1:	36.4:	51.7:	55.6:	30.3	28,6:	39.1:	38.2
Value (\$1,000)	87,438:	87,438:102,025:106,850:	.06,850:	97, 385:	93,690:	75,593:	42,198:	35,243:	86,217:122,290	22, 290
% Total U. S. Value	: 57.9:	44.1:	.42.7:	35.5:	55.2:	35.8°	52,5:	52.7:	48.0:	50.8
	••	••	••	••	••	••	••	••	••	
Kentucky (Types 22-24, 51,	••	••	••	••	••	••	••	••	••	
35,36)	••	••	••	••	••	••	••	••	••	
Acreage Harvested (1,000)	: 479:	426:	290:	588:	486:	519:	565:	424:	454:	347
% Total U. S. Acreage	: 27.4:	26.2:	18.6:	20.8:	24.4:	24.6:	28.3:	30°C:	25.8:	26.0
Production (1,000 lbs.)	:387,990:358,568:202,269:300,700:392,688:372,123:488,725:315,862:325,155:281,216	558,568:2	02,269:2	500, 700: 3	92,688:3	72,123:4	88,725:3	515,862:3	25, 155: 28	31,216
% Total U. S. Production	28.2:	27.8:	16.7:	21.9:	25.5	22.6:	30.9	50, B:	25. 6:	25.7
Value (\$1,000)	: 62,078:	38,008:	45,286:	75,175:	68,720:	45, 399:	34,699:	51,270:		44,151
% Total U. S. Value	26.9:	16.4:	17.5:	27.4:	24.4:	21.5:	26.8:	29.0:	18.3:	18.3
	••	••	••	••	••	••	••	••	••	
Tennessee (Types 22,23,31,35)	••	••	••	••	••	••	••	1	••	
Acreage Harvested (1,000)	: 150:	136:	88:	110:	134:	157:	161:	135:	157:	120
% Total U. S. Acreage	: 7.44	8.4:	5.7:	5.9:	6.7:	7.4:	8.1:	9.6:	တ	0.0
Production (1,000 lbs.)	: 94,380:106	106,216:	68,484:	80,775:1	15,776:126	26,699:1	55,240:107	07,187:132	32,248:103	3, 590
% Total U. S. Production	:0.0	8.2:	5.7:	50 03	7.5:	7.7:	8.5	10.4:	9.6	ى ئ
Value (\$1,000)	: 16,045:	11,155:	14,656:	17,124:	21,534:	18,625:	10,008:	10,612:	13,754:	15,642
L Total U. S. Value	: 7.0:	4.8:	5.9:	6,2:	7.6:	8	7.7:	9.8:	7.7:	6,5

													•	-11	. /-																		
1934 8	113 a	92,970	22, 313	9.0		72	5.4	57,600	5.5	5.2			51	3.8	52,234	2.9	6.124	2.5			32	2.4	23,418	4.215	1,7		,	01	7.000	14.2.16		4 840	000
1033	132:	97.046:	12.422:	6.9	••	103:	5,9:	88,580:	6.4:	6.2:		• •	99	3.8:	58,124	4.2:	6.626:	3.7:	••	••	34:	1.9:	20,400:	3.570	2.0:	••	••	14:	_	18.578:	1.5	9 010	100
6 X O.	91:	55, 516:	5.4:		••		4.8:	39,236:	3.8°	49.045		• • •	24:	1.7:	12,565:	1.2:	1,420:	10 S	••	••	34:	2.4:	26,272:	4.466	4.]:	••	1	15:	1.1:	22,099:	2.2:	4.155	0.0
1021	155:	97,920:	6.463:		••	102:	5,1:	69,972:	4.0:	5.0:	1	• •	84:	4.2:	59,640:	3. R:	4,056:	3.7:	••	• •	38:	1.9:	29,605	4.447:	5.4:	••	••	23:	1.2:	29, 250:	1.8:	6,669:	0.4
	186:	12	9,903	4 1	••	116:	5,5:	98,600:	6.0	5.6:		• •	114:	5.4:	104,538:	6.3:	10,767:	5.1:	••	••	35:	1.7:	16,625:	4.821:	2.3:	••	••	23:	7.7	52,409:	2.0:	12,024:	0. (;
1929 :	178:	- 04	20.964:		••	118:	5.9:	87,084;	5,7:	4.9:		• •	98:	3		5.8:	16,768:	5.9:	••	••	33:	1.7:	24,750:	6.732:	2.4:	••	••	21:	7.1:	28,496:			440
1928 :	181:	9	16.778:	6.1:	••	148:		- 1	6.0	5.8:	-	• •	122:	6.5		6.1:	11,139:	4.7:	••	••	51:	- I		5,586	7 1	••	••	25:			- 1		% of the control of t
1927 :	177:	27,971:104	22.779:	9,1:	••	104:	1 1	1	6.3	6.3:		• •	82:	55		4.9:	- 1	4 ° C:	••	••	52:	2,1:	26,176:	6.0203	4 1	••	••	24:	1.55	- 1			4.66
90	189:	101	24.118:	1 1	••	80	5,2:	1	4.4:	5.7:		• •	52:	3.2		5,1:	9,591:	4.7:	••	••	31:		-1	6.171:	3 1	••	••	225	1.4:	- 1	-		4000
1925	2005	129,400:1	9.4:	8,8:	••	: 96	1 1	- 1		5.2:	•	• •	67:	3.R:		3,5:	7,256:	3.13	•	• •	30:	-1	- 1	4.691:	2.0:	••	••	30:	- 1	-	_		0.00
		-12		1 1		00 00			•			• •	• ••	••	5 .	• •	0.0	••	••	••	••				••		••	••					•
(120 to to the m) • • • • • • • • • • • • • • • • • •	Acreage Harvested (1,000)		Value (\$1.000)	& Total U. S. Value		South Carolina (Type 15) Acreage Harvested (1.000)	% Total U. S. Acresge	oduction (1,	Total U. S. Production	% Total U. S. Value		Georgia (Types 14.45.62)	Acreage Harvested (1.000)	% Total U.S. Acreage	lon (1	% Total U. S. Production	lue (\$1,000	L Total U. S. Value		Maryland (Type 32)	reage Harves	% Total U. S. Acreage	- 64	Value (#1,000)	1'~!		Connecticut (Types 51,52,61)	Нагуез		oduction (1,	% Total U. S. Production	00001	e local de Se value

Sourc,: Department of Agric lture, Yearbooks of Agriculture, years 1925 to 1935 a/Preliminary

LEAF TOBA ESTIMATED ACREAGE, PRODUCTI TARM VALUE, AND PRICE PELL LUND, SUBDIVIDED BY CLASS, WITH LACENTAGE RELA-

TABLE III

GE, PRODUCTION AND VALUE OF EACH CLASS TO . YEARLY 1925-1934.	: 1927 : 1928 : 1929 : 1950 : 1951 : 1952 : 1954	••	: 1,556: 1,864: 1,988: 2,112: 2,000: 1,409: 1,755: 1,271	1,211: 1,373: 1,537: 1,647: 1,584: 1,023:	,462:274,136:282,168:211,156:129,689:107,776:177,905:22	20.7: 20.0: 18.4: 12.8: 8.2: 10.5:		•••	: 958: 1,120: 1,088: 1,128: 977: 618: 920: 687	: 61,6: 60,1: 54,7: 53,4: 48,9: 43,9: 53,1: 54,1	:718,789:739,099:749,752:864,276:669,879:373,365:733,107:556,930		47,302:128,067:134,920:103,479: 56,406: 43,366:112,102:151	58,8: 46,7: 47,8: 49,0: 43,5: 40,2: 63,0:	20,5: 17,3: 18,0: 12,0: 8,4: 11,5:	••	•••	: 150: 184: 225: 255: 255: 159: 168: 149	: 9.6: 9.9: 11.2: 11.0: 11.7: 11.3: 9.7: 11.7	:210,753:188,752:113,458:136,528:187,291:166,518:188,136:125,244:128,043:126,477	9.4: 9.9:	17,140: 19,549: 24,794: 14,159: 9,573: 7,	6,8: 7,1: 8,8: 6,7:	15,1: 14,2: 13,2: 8,5:		•••	: 273: 361: 458: 517: 550: 453: 535: 340	: 17.5: 19.4: 25.0: 24.5: 27.5: 32.2: 30.9: 26.8	: 302, 530: 514,833: 202, 403: 289, 596: 366, 963: 376, 337: 463, 390: 336, 455: 396, 986: 257, 245	: 16.7: 21.1: 25,9: 22,9: 29,5: 32,9: 29,1: 24.6	51,770: 87,616: 81,516: 60,251: 42,003: 45,581: 45,297: 45	: 20,7: 52,0: 28,9: 28,5: 52,4: 40,5: 24,5: 19,6	000 000
OF EACH	1930										864,276	52, 5	103,479	49.0						166,518	10,1		1				_		576,337	22.9			
ID VALUE	1 1							,			749, 752	48.8	134,920:				••			187,291		24	1			••			366,963	25.9			
1925-		••		1,373:	274,136:	20.0:		••	1,120:	60,1:	739,099:	53.8:		46,7:			••	184:	9.9	156,528:		19, 349:	7.1:	14.2:		••	361:	19.4:	289,596:	21.1:	87,616:	52.0:	70 02
YEARLY	1927 :	••	1,556:			20.7:	••	••	958:	61.6:	78, 789:		47	58.8:	20.5	••	••	150:	9.6:	15,458:	9.4:	17,140:	6.8:	15.1:	••	••	273:	17.5:	02,403:	16.7:	51,770:	20.7:	2 7 0
ACREAGE, TOTAL.	1926 :	••	1,628:	1,289:	51,208:250	17.9:	••	••	801:	49.2:	.072:		39,669:1	60,4:	24.9:	••	••	254:	14.4:	88,752:1	14.6:	14,804:	6.4:	7.8:	••	••	378:	2512:	14,835:	24.4:	42.956:	18.6:	0 6 5
TION OF THE	1925 :	••	1,751:	1,576:	:250,642:251	16.8:	••	••	835:	47.7:	:575,084:560	41.8:	:114,951:139	49.8:	20.0:	••	••	275:	15.7:	10,753:1	15.3:	21,446:	9.3	10.2:	••	••	375:	21.4:	02,530:3	22.0:	55,834:	24.2:	1
		••	••		: 2	1b.:	••	••	••	••	.5	••		••	1b:	••	••		••	2	••	•	••	1b:	••	••	••	••	: 3(	••		••	1.5
		(ALL CLASSES)	Acresge Harvested (1,000)	.sq1 000,000,1	(\$1,000)	cents per			Acreage Harvested (1,000)	S. Acreage	(1,000 lbs.)	S. Production	$\sim$	. Value	Farm Price, ¢ per lb:			Acreage Harvested (1,000)	• Acreage	1,000 lbs.)	Total U. S. Production	(\$1,000)	. Value	Farm Price, ¢ ner		0	Acreage Harvested (1,000)	. Acreage	(1,000 lbs.)	. Production			
	CLASS	U.S. TOTALS (A	eage Harv	Production (	-	Average Price,		FLUE CURED	reage Harv	Total U. S		Total U. S	Dollar Value	% Total U. S.	Average Farm		FIRE CURED	eage Harve	% Total U. S. Acreage	Production (1,000 lbs.	Fotal U. S	Dollar Value (\$1,000	% Totel U. S. Value	Average Farm		LIGHT AIR CURED	reage Harv	Total U. S. Acreage	Production (	Total U. S.	Dollar Value	Total U. S.	ţ

																			121	<i></i>															
1204	42	22.22		3°E	2,824	7.2	7.€			28	2002	54.357	20.00	3,165	7.4	9.8			17	7.2	26, 328	2.5	5,194	1,4	12.1			7	0.6	7,048	0.7	4,841	2,2	68.7	ad on
TOOO	42	2.4	781:	2.3:	2, 314:	1.5:	7.5:		••	54:	2.0:	279:	2.4:	1.736:	7.0:	5.4:	••	• •	28:	1.6:		1 1	5,252:	7.3:	8.6:	••	••	9	0,5:	6,156:	0.5:	5,552:	2.0:	57.7:	d. Tobacco
	49:	5.5	59,189:	5.8:	1,631:	1. 5.0 1.0 1.0 1.0 1.0 1.0 1.0 1.0 1.0 1.0 1	4.2:	••	••	71:	5.0:	68,802:	6.7:	5,085:	2.9	4.5:	••	••	52:	3.7:	72,357:	7.1:	4,990:	4.5:	6.9	••	••	7:	0.5:	6.932:	0.7:	5,512:	5.5:	50.7:	Renorting Roard
TOOT	88	4.4:	73,770:	4.7:	2,518:	1.00	5.4:	••	••	75:	3.8	91,694:	5.8			6.8:	••	••	68:	5.4:	87,122:	5.5	7,576:	5,8:	8.7:	••	••	6	0,5:	8,591:	0.5:	5,269:	4.1:	62.8:	1
	78:	3.7:	61,025:	5.7:	4,840:	2.5	7.9:		••	73:	5.5	73,271:	4.4:	6,073:	2.9:	8.5	••	••	70:	5.5	93,691:	5.7:	14,552:	6.8:	15.5:	••	••	11:	0.5:	11,502:	0.7:	7,904:	5.7:	68.7:	ing Cmn
1040	73:	3.7:	61,421:	4.0	6,620:	2, 3:	10.8:		••	70:	5.5:	75,331:	4.8:	9,307:	3.3	12.7:	••	••	61:	5.1:	81,228:	5.5	16,544:	5.9:	20.4:	••	••	13:	0.7:	14,903:	1.0:	8,235:	2,9:	55.3:	Reconomics.
2,101	61:	5.8	43,874:	3.8	5,147:	1.9:	11.7:	••	••	62:	5, 5	67,868:	4.9:	10,108:	5.7:	14.9:	••	••	64:	5.4:	85,537:	6.1:	14,340:	5.4:	17.8:	••	••	12:	0.6:	11,555:	0.8:	8,797:	5.2	76.5:	Apricultural
1	52:	5.4:	36,679:	3.0:	3,757:	1.5:	10.2:	••	••	52:	5.4:	60,629:	5.0:	8,292:	5.5:	13.7:	••	••	58:	5.7:	67,845:	5.6:	12,378:	5.1	19.0:	••	••	10:	0.6:	10,512:	0.9:	9,152:	5.6:	86.9:	90
•	91:	5.6:	78,428:	6.1:	5,633:	2.4:	7.2:	••	••	62:	5.8:	67,195:	5.2:	6,663:	2.9	9.9		••	55:	5.4:	70,752:	5.5:	14,264:	6.2	20.2:	••	••	8:	0.5	8,525	0.7:	7,100:	5.1:	85,5:	e. Bureau
	111:	6.5	92,258:	6.7:	7,445:	5.2:	8.1:	••	••	76:	4.5:	751:	3.7:	9,809:	4.5:	10.7:	••	••	70:	4.0:	95,159:	6.9:	14,578:	6.3:	15.5:	••	••	7:	0.4:	7,538:	0.5	6,518:	2.7:	85.8:	ricultur
•		••	••	••	••	••	1p:	••	••	••	••	••	••	••	••	1.b.	••	••	••	••	••	••	••	••	1b:	••	••	••	•	••	••	••	••	1b:	of Ap
	eage	% Total U. S. Acresge	[]	% Total U. S. Production	Dollar Value (\$1,000)	% Total U.S. Value	Average Farm Price, ¢ per		GAR FILLER	Acreage Harvested (1,000)	% Total U. S. Acresge	Production (1,000 lbs.)			% Total U. S. Value	\$ per		GAR BINDER	Acreage Harvested (1,000)	% Total U. S. Acreage	coduction	% Total U. S. Production	Dollar Value (\$1,000)	I Total U. S. Value	Average Farm Price, ¢ per		GAR WRAPFER		% Total U. S. Acreage	Production (1,000 lbs.)	& Total U. S. Production	Dollar Value (\$1,000)	F Total U. S. Value	Average Farm Price, \$ per	Source: U. S. Department of Agricultur
	ATP CHURD	WRED : 127 : 125 :	AIR CURED : 130 :	AIR CURED : 13. 111: 91: 55: 61: 75: 78: 88: 49: 42: 70: 10.00 lbs.) : 92,258: 78,428: 36,679: 42,871: 61,421: 61,025: 73,770: 39,189: 31,781: 57,	AIR CURED : 13. 111: 91: 55: 61: 75: 78: 88: 49: 42: 0.01. 1.00. 1	AIR CURED  eage Harvested (1,000) : 111: 91: 53: 61: 73: 78: 88: 49: 42: 0tal U. S. Acreege : 6.3: 5.4: 5.4: 5.5: 2.4: 0tal U. S. Production (1,000 lbs.) : 92,258: 78,428: 36,679: 45,874: 61,421: 61,925: 73,770: 39,189: 51,781: 57, otal U. S. Production : 7,445: 5,635: 3,757: 5,147: 6,620: 4,840: 2,518: 1,631: 2,31: 2,31:	AIR CURED  Teage Harvested (1,000) : 111: 91: 55: 61: 75: 78: 88: 49: 42: 64: 6.5: 5.4: 5.5: 5.7: 5.7: 4.4: 5.5: 2.4: 6.4: 5.6: 5.4: 6.4: 6.5: 5.6: 5.6: 5.6: 5.6: 5.6: 5.6: 5.6	AIR CURED  Peage Harvested (1,000) : 111: 91: 55: 61: 75: 78: 88: 49: 42: 5.4:  Otal U. S. Acreege : 6.7: 5.6: 5.4: 5.7: 78: 88: 49: 8.4: 57: 5.4: 57: 0tal U. S. Production : 6.7: 6.1: 5.0: 5.8: 4.0: 5.7: 4.7: 5.8: 2.5: 1ar Value (\$1,000) : 7.445: 5.655: 5.757: 5.147: 6.600: 4.840: 2.518: 1.631: 2.514: 2.5: 1.8: 1.8: 1.8: 1.8: 1.8: 1.8: 1.8: 1.8	ED	AIR CURED  eage Harvested (1,000)	ED	ED	ED  rvested (1,000): 111: 91: 55: 61: 75: 78: 88: 49: 42: 78: 78: 88: 49: 42: 78: 78: 88: 49: 42: 78: 78: 88: 49: 42: 78: 78: 78: 78: 78: 78: 78: 78: 78: 78	ED  rvested (1,000) : 111; 91; 55; 61; 75; 78; 88; 49; 42; 57; 5. Acresge  S.	ED  Invested (1,000): 111: 91: 55: 61: 75: 78: 88: 49: 42: 5.4:  S. Acreege	ED  rvested (1,000): 111: 91: 55: 61: 75: 78: 88: 49: 49: 42: 5.6  S. Acreage  S. Production  S. Production  S. S	Envested (1,000) i 111; 91; 52; 61; 75; 78; 88; 49; 42; 57.4; 5.4; 5.4; 5.4; 5.6; 5.4; 5.6; 5.4; 5.7; 4.0; 5.7; 4.4; 5.5; 2.4; 57.4; 5.7; 5.77;	Envested (1,000) : 111: 91: 55: 61: 75: 78: 88: 49: 49: 42: 55. 61: 75: 78: 88: 49: 49: 42: 57. 6.1 5.7: 78: 88: 49: 49: 42: 57. 6.1 5.000 lbs.) : 92,258: 78,428: 56,679: 45,874: 61,421: 61,422: 75,770: 59,189: 51,781: 57, 5.41: 5.81: 5.82: 5.42: 5.43:	Envested (1,000) : 111: 91: 55: 61: 75: 78: 88: 49: 42; 42  S. Acreege	ED  Evested (1,000)   111;   91;   53;   61;   73;   78;   88;   49;   42;   42    S. Acreege   6.5;   5.6;   5.4;   5.7;   77;   74.4;   5.5;   2.4;   57.145    S. Production   6.7;   6.1;   5.0;   5.8;   5.7;   5.7;   7.8;   88;   49;   7.8;   42;   5.2;    E. Value   (4.1,000)   7.445;   5.655;   5.75;   5.147;   6.620;   4.840;   2.518;   1.65;   1.65    S. Acreege   5.2;   2.4;   1.5;   1.9;   2.3;   1.9;   1.5;   1.5;   1.6    E. Value   5.8;   5.4;   1.5;   1.7;   10.8;   7.9;   5.4;   4.2;   7.5;   7.6    E. Acreege   4.5;   5.8;   5.4;   5.5;   5.5;   5.8;   5.0;   2.0;   2.2    E. Production   6.7;   5.2;   5.0;   4.88;   7.3;   5.8;   5.0;   2.0;   2.2    E. Production   6.7;   5.2;   5.0;   4.8;   4.4;   5.8;   6.7;   5.4;   5.2;   3.5    E. Production   6.7;   5.2;   5.0;   4.8;   4.4;   5.8;   6.7;   5.4;   5.2;   5.0;   5.4;   5.2;   5.0;   5.4;   5.2;   5.0;   5.4;   5.2;   5.0;   5.4;   5.2;   5.0;   5.4;   5.2;   5.0;   5.4;   5.2;   5.0;   5.4;   5.2;   5.0;   5.4;   5.2;   5.0;   5.4;   5.2;   5.0;   5.4;   5.2;   5.4;   5.4;   5.2;   5.4;   5.	Entrested (1,000)   111;   91;   53;   61;   73;   78;   88;   49;   42;   43;	Evested (1,000)   1111   91   55   61   73   78   88   49   42   42   42   5   5   5   400   5   5   5   5   5   5   5   5   5	ED	Exped (1,000)   111;   91;   52;   61;   73;   78;   88;   49;   42;   42;   42;   61;   6	Forested (1,000)   111; 91; 55; 61; 75; 78; 88; 49; 42; 42; 55; 54; 55; 54; 55; 57; 57; 57; 44; 55; 54; 55; 54; 55; 54; 55; 57; 57; 57; 57; 57; 57; 57; 57; 57	Expected (1,000) i 11: 91: 55: 61: 75: 78: 88: 49: 49: 49: 492 S. Arcregted (1,000) bs.) 11: 91: 55: 61: 5.82 S. Arcregted (1,000) bs.) 92,258: 78,429: 86,679: 43,871: 61,421	Expected (1,000) i 11: 91: 55: 61: 75: 78: 88: 49: 49: 42. 42. 42. 42. 42. 42. 42. 42. 42. 42.	Expected (1,000)   111; 91; 51; 51; 61; 75; 77; 81; 88; 49; 42; 42; 42; 52. 41; 52. 42; 52. 53; 54. 52. 54; 54. 54. 54. 54. 54. 54. 54. 54. 54. 54.	Expected (1,000)   111   91   55   61   75   76   88   49   42   42   42   42   42   42   42	Expected (1,000)   111; 91; 55; 61; 77; 78; 88; 49; 42; 42; 42; 55; 54; 57; 57; 57; 44; 5,5; 24; 55; 57; 57; 57; 57; 44; 5,5; 24; 5,5; 57; 57; 57; 57; 57; 57; 57; 57; 57; 5	Expected (1,000)   113: 91: 55: 61: 75: 77: 78: 98: 49: 42: 42: 42: 42: 42: 42: 42: 42: 42: 42	Enverted (1,000) i 111 i 91; 52; 61; 77; 78; 78; 68; 40; 42; 42; 42; 42; 55; 54; 55; 54; 57; 57; 57; 57; 57; 57; 57; 57; 57; 57	Expected (1,000) in 11; 91; 53; 61; 73; 78; 98; 40; 42; 42; 42; 42; 42; 42; 42; 42; 42; 42	Enverted (1,000) i 11: 01: 02: 05: 01: 7: 7: 7: 7: 05: 05: 05: 05: 05: 05: 05: 05: 05: 05	Expected (1,000) in 11: 91: 53: 61: 77: 78: 68: 49: 42: 42: 42  No. Oldo Bay. 1 92.28: 5.67: 5.48: 5.77: 5.77: 4.41: 5.8: 2.43: 5.78  (1,000) Bay. 1 92.28: 5.67: 5.48: 5.48: 5.77: 5.77: 5.77: 5.77: 5.8: 5.48: 5.28: 5

Types, April 16, 1934.

Total 1934 U. S. Production does not include an estimated 28,500,000 pounds of Burley, Dark Air-Cured, and Fire-Cured Tobacco in excess of allotment harvested and rendered unmarketable by growers operat-0. S. Department of Agriculture, Bureau of Agricultural Economics, Crop Reporting Board, Tobacco by conrce Note:

ing under contract with the AAA.

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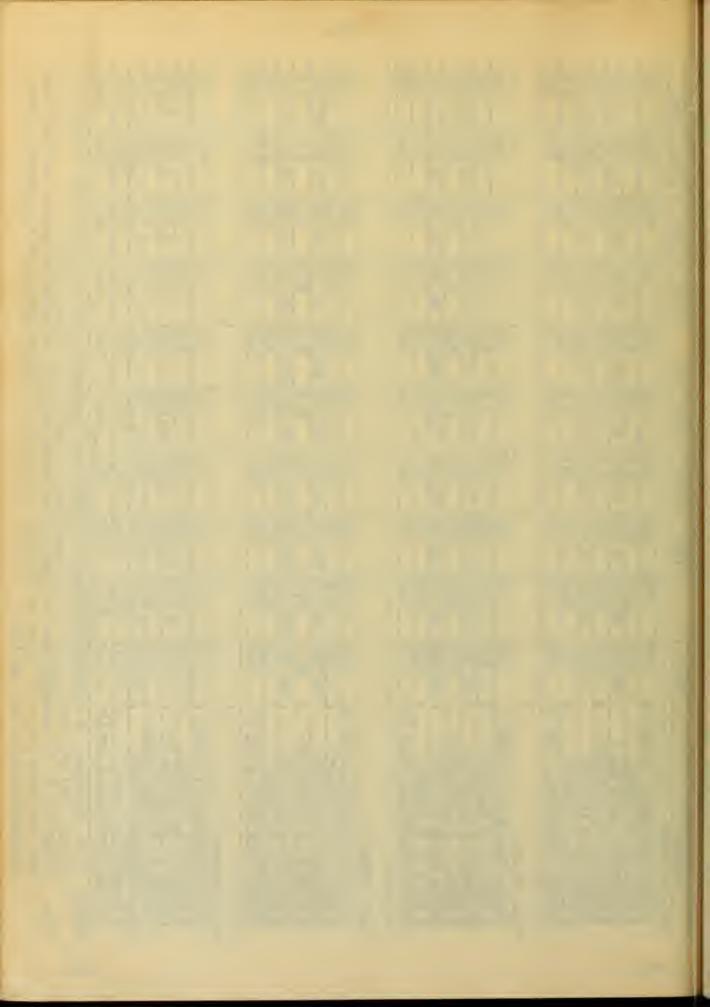


Table II, covering ten years only, ending with 1934, indicates steady or increasing production in those states raising Flue Cured and Burley, the types most largely used in cigarettes. Again the heavy losses in the states producing the cigar types are indicated.

The constantly increasing proportion that Flue Cured bears to total United States production, as shown in Table III, is of great significance.

The Fire Cured type, grown both in Virginia and in Kentucky-Tennessee, has dropped in this period from 210,753,000 pounds produced in 1925 to 126,477,000 pounds in 1934. Its dollar value has decreased in about the same proportion. Its foreign market has been drying up, and its only other extensive use is in the manufacture of snuff. It is interesting to compare the average farm price per pound for this type with the average earnings of snuff companies.

Corporation statements indicate that the three largest snuff companies for the period 1926-1933 inclusive, reached their highest earnings, \$9,500,000 in 1929; and their lowest earnings, \$7,900,000 in 1933. Cash dividends in excess of \$5,000,000 were paid each of these years by these three companies together.

The snuff companies are by all odds the largest buyers of Fire Cured tobacco for domestic use. During this same period of years, the average price of this tobacco paid the farmer ranged from a high of 15.1¢ in 1927, to a low of 5.1¢ in 1931. The dollar value to the farmer of this entire crop including the amount exported, ranged during these same years from a high of \$24,800,000 in 1929 to a low of \$7,780,000 in 1932 (see Table 3, page—this chapter).

In 1931, the three largest snuff companies produced in excess of 38,000,000 pounds of snuff at an estimated profit of 22¢ per pound, but in that same year, the average farm price for Fire Cured tobacco was 5.1¢ per pound.

In 1933, the farmer received an average of 9.1 $\phi$  for Fire Cured tobacco. In 1933, the three largest snuff companies made a dividend disbursement at the approximate rate of  $23\phi$  per pound manufactured.

The Dark Air Cured type, with production of 92,258,000 pounds in 1925, dropped to 37,145,000 pounds in 1934. The cigar types, excepting only cigar wrapper, show similar or worse declines. The crop of cigar filler worth \$10,000,000 in 1925 brought but little more than \$3,000,000 in 1934. Production dropped from 92,000,000 pounds to 34,000,000 pounds. Cigar binder made an even worse showing. Its dollar value for the same years decreased from \$14,600,000 to \$3,200,000 and its production dropped from 95,000,000 pounds to 26,000,000 pounds.

The percentage of unstanced tobacco used in nanufacture in the United States of all tobacco products is shown in Table IV, below. The marked increase in percentage of tobacco now consumed in the nanufacture of digarettes, and the heavy losses in all other types, indicate that the only two areas of reasonable prosperity for farmers raising tobacco leaf are the South Atlantic States — and Mentucky and Tempesce, where Flue Cured and Burley, respectively, are grown.

TABLE IV

Relative Percent of U	Instermed Tobacco	Used in	Tobacco	Menufacturi	ng (*)
Product	1900	1910	1920	1925	1934
Cigars Ciparettes Shuff, Chewing & Shoking Tobacco	27.7 3.4 68.9	25.6 5.7 68.7	26.5 23.0 50.7	20.7 54.0 45.3	14.3 48.4 37.3
	100.0%	100.0%	1.00.0%	100.0%	100.0%

Table V, following, shows the pounds of unsteamed tobacco required for the same group of products. The domestic consumption of all types of unstermed tobacco has about doubled since 1900.

TABLE V

Pounds of Unstemmed Tobacco	Consumed (C	∩∩ omitte	d) (*)	
Product	1900	1920	1925	1934
Cigars Cigarettes Sauff, Chewing & Smoking Tobacco	105,395 13,084 262,375	168,596 146,907 324,478	•	111,123 375,383 289,024

It is evident that the heavy decline in the cight industry since 1920 has forced a readjustment in production among the agricultural areas raising these eight types. The loss in foreign demand for the Dar't Fired types has had similar effects. The disproportionate increase in the amount of tobacco used in eightette manufacture has brought greater prosperity to the areas growing Flue Cured and Burley, particularly during the years that the crop has been under control. It is safe to assume, based upon statistics of recent years, that the requirements for shuff and chewing tobacco manufacture will not increase. Cigar leaf types are not used in other American tobacco products except for scrap chewing, the consumption of which in 1934 was 27% less than in 1931. Furthermore, these types are not exported except in small quantities. It appears, therefore, that unless

<sup>(\*)</sup> Annual Reports of the Commissioner of Internal Revenue.

there is marked increase in the consumption of cigars, which is improbable, production of this particular class of leaf willl never reach its former peak.

### 2. The South Atlantic States

There is not only the problem of shifting areas for tobacco cultivation, but the relationship of tobacco to other agriculture commodities. The South Atlantic States present an interesting illustration of this problem.

Four states -- Virginia, North Carolina, South Carolina and Georgia -- depend for agricultural income to a marked degree on two crops, cotton and tobacco. Florida, growing some cotton and tobacco, is included to complete the group.

Bright Flue-Cured tobacco (Types 11-14) grown in these five states is used primarily in the manufacture of cigarettes, although small amounts find their way into the manufacture of chewing and smoking tobacco. Approximately 55% of the Flue-Cured crop is exported in leaf form, although Flue-Cured represents 70% of all tobacco exports. While the money value of the total cotton crop grown in all southern states is far greater than the value of the total tobacco crop, the relative position of the two crops is different in these five states.

In 1910, cotton production in the South Atlantic States amounted to 3,710,000 bales, having an estimated farm value of \$265,000,000 and in 1934 2,406,000 bales with an estimated farm value of \$152,500,000. When compared with 1910, the year 1934 shows a decrease in bales produced of approximately 35% and a reduction in farm value of 42%. (\*)

In 1910, this group of five states produced 32% of the entire cotton crop of the United States, and in 1934, 25%. The states of South Carolina and Georgia account for the major portion of this decrease in production.

In 1910 these same states produced 275,758,000 pounds of tobacco with an estimated farm value of \$27,360,000; in 1934, 606,640,000 pounds, an increase of approximately 120%. In 1934, tobacco production had an estimated farm value of \$164,500,000, or approximately at 500% increase when compared with 1910.

While this group of states accounted for only 20% of the total tobacco produced in the United States in 1910, they accounted for approximately 35% in 1934, practically double their 1910 ratio. The state of North Carolina alone is responsible for the major portion of this increase with a production of 418,800,000 pounds in 1934, compared with a production of 129,600,000 pounds in 1910.

<sup>(\*)</sup> Based on data published in the Yearbooks of the United States Department of Agriculture for the years 1910 and 1934.

In the South Atlantic States, these two crops together had an estimated farm value in 1910 of \$292,400,000 as compared to \$317,083,000 in 1934. These amounts were respectively 32% and 37% of the estimated farm value of these two combined crops for the entire United States. While there has been a relatively small increase in 1934 over 1910 in the estimated farm value of these two crops combined, it is of paramount importance to record the change in relative position of each of these two crops during the period covered. This is shown in the following table:

TABLE VI
COTTON AND TOBACCO COMPARED

	1910		1934(*)				
	Est. Farm Value	Per Cent	Est. Farm Value	Per cent			
Cotton Tobacco	\$265,074,80 <u>4</u> 27,360,000	90.65 9.35	\$152,580,000 164,503,054	48.12 51.88			
Together	\$292,434,804	100.0	\$317,083,054	1.00.0			

Tobacco, constituting less than 10% of the total estimated farm value in 1910, accounts for more than one-half of the total estimated farm value in 1934. If the relative trends of these two crops continue, the economic agricultural prosperity of this section is evidently to become more and more dependent on its tobacco production. This is particularly true of Forth and South Carolina and Georgia, both Virginia and Florida having greater agricultural diversification.

While it is impossible to estimate with any degree of accuracy the amount of Bright Flue-Cured tobacco that will be required for domestic consumption during the next few years, the steady increase in eigerette consumption by the American public warrants the conslusion that there will be a slowly increasing demand for this type by American manufacturers, unless there should be an unforseen change to blends using a smaller proportion of Flue-Cured Leaf. However, the percentage of tobacco exported is so large that the economic arricultural prosperity of this section is dependent upon a continuation of world markets. This subject, which is of major importance, is discussed in Chapter IV.

The industrial prosperity of all of these five states is dependent to a considerable extent on the products made from these two agricultural commodities. North Carolina leads in tobacco manufacturing as in tobacco production, and also has exceedingly large textile manufacturing interests.

It does not appear probable that these states will materially increase their present percentage of manufactured tobacco products. Any considerable additional contribution to the economic prosperity of the South Atlantic States on the part of the tobacco manufacturing industry is largely limited, therefore, to an increase in the levels of leaf prices and of wages.

<sup>(\*)</sup> Idem

#### CHAPTER IV

#### FOREIGN TRADE IN LEAF TOBACCO

# PART 1 - THE IMPORTANCE OF TOBACCO AS AN EXPORT COMMODITY AND THE GROWTH OF FOREIGN COMPETITION

Leaf tobacco enters world trade for two reasons - first, to supply the needs of countries that cannot produce it - and second - to supplement or augment local production.

#### A--THE IMPORTANCE OF TYPES

Tobacco is a commodity made up of a number of different types, each one of which has separate and distinct uses. Although a limited degree of substitution of one type for another is possible, the differences in types are so great that anything approaching complete substitution is impossible because of individual smoking habits and preferences.

To a lesser degree there is the same differential within each type. This is best exemplified in the case of the principal type, - Bright Flue Cured. The demand for this type of tobacco is world-wide in character, but certain grades or qualities have very specific markets.

This complexity of types and qualities can be more easily understood by explaining that although tobacco is grown for domestic use in almost every country of importance with the exception of Great Britain, Denmark, Norway, and Holland, more than half of the tobacco that enters world trade comes from the United States. This country is, by far, the largest source of leaf tobacco, the next largest being the Netherlands East Indies whose exports averaged only 30% as much in the five-year period 1926-1930. (\*)

The United States also imports substantial amounts of Turkish leaf from Greece and Turkey for blending in cigarettes, and cigar leaf from Cuba, Puerto Rico, the Philippines and the East Indies. Turkish leaf as a type does not compete with any type produced in this country.

#### B--THE CHANGE IN SMOKING TASTES

As the general demand for tobacco has increased and as consuming habits have changed, and furthermore, as foreign production has been initiated or has expanded, just so has the United States foreign trade in leaf tobacco followed these changes.

The United States Department of Commerce classifies tobacco exports into ten separate types. Each of these types is grown in separate and well defined areas with practically no over-lapping. Consequently as any change in consuming habits or in foreign production is reflected in the demand for a particular type, so the economic effect is concentrated within the special area where that particular type is grown. Thus, the sharp decline in exports of the Dark Fired types has adversely affected

<sup>(\*)</sup> Plantation Crops. Empire Marketing Board, London, November, 1932

certain tobacco growing sections of Virginia, Kentucky and Tennessee; while the increase in exports of Bright Flue Cured, due to the immense growth in cigarette smoking, has been of great benefit to the South Atlantic States.

When broken down by principal export types the following average results are obtained:

TABLE I (\*)
EXPORTS IN POUNDS

	,		Increase or	Decrease
Туре	Av. 1927-31	Av. 1932-34	Amount	Percent
Bright Flue Cured	386,821,000	286, 412, 000	-100, 409, 000	<b>-25.</b> 96
Dark Fired Types	108,623,000	86,375,000	-22,248,000	-20.48
Maryland & Ohio	11, 966, 000	8,819,000	-3,147,000	-26.30
Burley	9,653,000	13,112,000	+3,459,000	+35.83
Green River	8,965,000	3,058,000	-5,907,000	-65.89
One Sucker	3,415,000	1,058,000	-2,357,000	-69.02
Black Fat, etc.	4,904,000	8,786,000	+3,882,000	<b>+</b> 79.16

It is observable from the above figures that the exports of Bright Flue Cured and the Dark Fired types comprise the bulk of the export trade in leaf, with a decided preponderance of the former. Further, it is particularly noticeable that there has been a decrease in the exports of every type during the second period with two exceptions, Black Fat, and Burley types.

#### C--THE DARK TYPES

The figures in Table I do not go back far enough to indicate that some years ago the relative position of the Bright Flue Cured and the Dark types was reversed. In 1912 the Dark types, consisting of Dark Fired Virginia and Dark Fired Kentucky - Tennessee, together with the Dark Air Cured types, One Sucker and Green River, and Black Fat, according to estimates made at the time, (\*\*) comprised 65% of the total exports of American leaf, while Bright Flue Cured was only 26.7% of the total. In volume this represents a decline in exports of the Dark types from approximately 230 million pounds in 1912 to only 67 million

<sup>(\*)</sup> Figures compiled from Department of Agriculture 1935 Year Book

<sup>(\*\*)</sup> Department of Agriculture V.P.I.Bulletin 244

in 1935, or a net decline of 163 million pounds. In 1935 Bright Flue Cured accounted for 73.07 per cent of total exports of leaf tobacco, which amounted to 396,300,308 pounds. (\*)

While it is generally understood that consumption of the dark types has not increased appreciably in Europe, production in Europe of substitute dark tobaccos increased from 211 million pounds in 1920 to 349 million in 1932, or a net increase of 138 million pounds. (\*\*)

Production of Green River type in Nyasaland is now of sizable proportions in comparison to foreign demand. The British companies, The Imperial Tobacco Company and Gallahers, Ltd., have evidently shifted their main source for this type from the United States to South Africa in order to take advantage of the preferential duty.

While there will probably be a continued appreciable demand for dark tobaccos in the important European markets and in parts of Africa and the West Indies, there is comparatively little chance that former levels of exports to European markets can ever be attained for these types, particularly in the case of Italy.

#### 1-The Lost Italian Market

Table II shows exports of Dark Fired tobacco from this country to Italy from 1918 to 1935.

TABLE II (\*\*\*)
DARK FIRED TOBACCO EXPORTS TO ITALY

Calendar year	Quantity in Pounds		Value in Dollars
1918	50,357,819		7,356,959
1919	43,623,888		8,375,622
1920	44,160,278		13,097,714
1921	50, 589, 889		11,267,083
1922	37,961,398		8,072,658
1923	34, 316, 420	1.	8,390,196
1924	16,893,207	~	3,893,207
1925			2,877,197
1926	5, 935, 509		1,387,452
1927	3, 262, 039		648 <b>,0</b> 14
1928	1,817,126		387,98 <b>0</b>
1929	3,375,137		938,144
1930	<b>3,</b> 88 <b>0,</b> 689		832, 234
1931	4,085,116		811,728
1932	2, 223, 636		329,510
1933	1,660,409		254,064
1934	2,141,053		380,861
1935	842,709		216,654

<sup>(\*)</sup> Department of Commerce, Bureau of Foreign and Domestic Commerce Bulletin issued February 1936.

<sup>(\*\*) &</sup>quot;Consumption and Production of Tobacco in Europe" by J. B. Hutson, Chief, Tobacco Section Agricultural Adjustment Administration MS.

<sup>(\*\*\*)</sup> Department of Commerce, Bureau of Foreign and Domestic Commerce, Tobacco Division.

The loss of the Italian market, which was once the most important foreign outlet for American Dark Fired tobacco, does not mean that there has been any let-up in the demand for tobacco products made from this particular type of leaf; it simply means that the American leaf has been replaced by native leaf grown from American seed. This ability to supply its own needs, coupled with intense nationalism and its economic conditions, has made Italy practically independent of the United States for its requirements of Dark Fired tobacco. In fact, not only has the market been lost to American exporters, but Italy, through its ability to produce large quantities of Dark Fired tobacco, has become a serious threat to American trade in this type of leaf in other world markets.

The question involved is one of replacement of American leaf by native production, rather than by imports from other countries which must be accepted by Italian consumers. Since the tobacco industry in Italy is a state monopoly, there is little likelihood that the once important Italian market for American Dark Fired tobacco will ever be restored to American exporters of leaf tobacco. A logical hope is that, owing to a growing preference on the part of many consumers for a milder type of tobacco, American Bright Flue Cured and Burley types will find favor once again with the Italian smoking public, and thus off-set to some extent the loss of the Dark Fired business.

#### D--MARYLAND TOBACCO

Maryland tobacco comprises about two and one-half percent of American production. (\*) Neutral in aroma, its usefulness is found in its unusual burning quality. When it is blended with other types in cigarettes, the burn is materially improved.

From early colonial days, when Virginia leaf was sold through English merchants exclusively, Maryland tobacco had a free competitive market in France, Holland, and Switzerland. Until a few years ago, France was the leading export market for this type. In 1927 exports to France amounted to 8,957,000 lbs., but in 1934 they had declined to only 162,000 lbs. (\*\*) Other important export markets are Switzerland, the Netherlands, and Belgium. For a number of years there has been a larger relative stability in the production of Maryland tobacco than in any other American type. For the sixteen year period, 1919-1934, the average yearly production was 23,000,000 lbs. (\*\*\*) In 1928, 51.01% of the Maryland crop was exported; in 1932, 37.01%, and in 1934, 30.21%. For the same years the exports of Maryland tobacco represented,

<sup>(\*)</sup> U. S. Department of Agriculture. Year Book of Agriculture 1935.

<sup>(\*\*)</sup> These figures include not only Maryland, but also Ohio export tobacco. However, the amount of the latter is very small. Source: Tobacco Division, Bureau of Foreign and Domestic Commerce, Department of Commerce.

<sup>(\*\*\*)</sup> Department of Agriculture Year Book of Agriculture - 1935, page 456.

respectively, 1.88%, 2.47%, and 1.60% of all tobacco exports. (\*) While it is possible that the French market for Maryland tobacco is not lost to the extent that the Italian market is lost for Dark Fired tobacco, it is improbable that future exports of Maryland tobacco to France will ever attain former levels.

The Maryland growers are partly to blame for the loss of the French market because of poor grading and careless and inferior packing (the loose leaf auction system does not prevail in Maryland). France is in a better position than other foreign customers to be independent of Maryland tobacco, because of nearly comparable types that are obtainable in Algeria and Madagascar. However, if the growers will grade, pack and otherwise properly handle their product, at least a part of the French markets may be restored to them, other important foreign outlets saved and new outlets created.

#### E--BURLEY TOBACCO

Burley tobacco is grown extensively in Kentucky and Tennessee, and along the borders of adjacent states. It is second only to Flue Cured in volume of production.

Increased demand for Burley in American blended cigarettes (Camels, Lucky Strikes, Chesterfields, etc.) has not kept pace with the increase in its production. Very little Burley is exported. In recent years, the amount has never exceeded 6%. (\*\*) This type is used extensively for American smoking mixtures, and also for plug chewing tobacco. It has to a greater extent than any other type the ability to absorb a large quantity of sweetening and flavoring.

Table III shows Burley production for the years 1931-1934, giving the percentage of its total to all the United States tobacco production, and also its percentage of total farm value, of all tobacco production. It will be noted that the average price per pound has almost doubled during this period, while at the same time the total supply of stocks on hand has also appreciably increased.

<sup>(\*)</sup> Department of Commerce, Bureau of Foreign and Domestic Commerce, Tobacco Division.

<sup>(\*\*)</sup> Department of Commerce, Bureau of Foreign and Domestic Commerce, Bulletin 521, issued July 2, 1935, page 8.

TABLE III (\*)
BURLEY TOBACCO

		•		
	1931	1932	1933	1934
Production in lbs. (000 omitted)	435, 313	308,385	375, 453	233,827
Percent of total tobacco production	27.49%	30.15%	27.47%	22.35%
Percent of total farm value	29.2%	35.8%	22.17%	17.7%
Ave. Price in cents per 1b.	8.7¢	12.5¢	10.6¢	16.9¢
Total supply in lbs. (000 omitted)	956.9	1,008.2	1,119.7	1,120.8

In the period 1916-1920 inclusive, production of Burley averaged 281.7 million pounds. In 1929 production reached 342 million pounds; but decreased to 234 million pounds in 1934. The piling up of surplus stocks of this type has created a considerable problem in the tobacco industry. Because of decreased production under crop control, and increased consumption of the popular brands of cigarettes, all of which contain an appreciable quantity of Burley in their blends, production and demand are today in better relation than for the past five years. Although some efforts have been made to popularize Burley in foreign fields, the type in leaf form has never found marked favor outside the United States.

More than for any other American type of leaf, with the exception of Bright Flue Cured, substantial foreign outlets are needed for Burley to care for the production over and above domestic requirements. Manufactured American tobacco products, a majority of which excepting cigars, contain Burley in their blends (\*\*), are popular in many foreign lands, and would enjoy much larger export sales if it were not for excessively high import duties. Therefore, there is a distinct opportunity offered to American exporters for the development of foreign made tobacco products containing a sizable percentage of Burley type. It is believed that much can be accomplished in this direction, and once a taste is acquired for this type, either in a blend or in an all Burley product, this tobacco may well become an important factor in the export of American leaf. Because of its mildness, it is particularly well suited to cigarette blends and to smoking mixtures.

<sup>(\*)</sup> The United States Department of Agriculture, Bureau of Agricultural Economics, Crop Reporting Board - "Tobacco by Types" - April 16, 1934

<sup>(\*\*)</sup> Some smoking mixtures and plug chewing tobaccos are almost entirely Burley, except for flavoring.

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#### F-BRIGHT FLUE CURED TOBACCO

#### 1. Domestic Production

Bright Flue Cured tobacco is the outstanding type grown in the United States. It has an even greater relative money value compared with its production. As an export commodity, it now dominates foreign tobacco trade.

This is substantiated by the percentage figures given in Table IV, which show the relative position of Bright Flue Cured to the total to-bacco produced in the United States, and also the large percentage of the American tobacco exports of this type.

# TABLE IV (\*)

#### BRIGHT FLUE CURED TOBACCO

	<u>1931</u>	1932	1933	1934
Production, lbs. % of Total Production		376,819,000 36.8%	738,583,000 54.1%	556,930,000 53.3%
Flue Cured Tobacco				
Exported, lbs. % Total Tobacco Expor		255,311,000 62%	297, 941, 000 68%	305, 948, 000 69%
Av. Farm Price per 1b % Total Farm Value	$\begin{array}{ccc} 8.4 \phi \\ 43.5 \% \end{array}$	11.5¢ 40.2%	15.3¢ 63. %	27.3¢ 68 %

As indicated in the discussion of Dark types, the present dominance of Flue Cured tobacco is of comparatively recent origin. The growth of this type reflects the sharp world-wide increase in per capita tobacco consumption following the World War when smoking became general with women, and also the decline in the use of cigars, smoking tobacco, and chewing tobacco in favor of cigarettes. Declining export figures show the increased foreign production of the Flue Cured type which has now reached substantial volume, notably in Canada, British India, British Africa, and China.

Also reflected in the United States world trade in this type are various foreign policies regarding duties, tariffs, trade barriers, and government monopolies. Beyond all these influences, however, an even force is observed in the financial and commercial dominance of the tobacco industry in certain countries where the industry is not state controlled, by two great foreign inter-related companies, the Imperial Tobacco Company of Great Britain and Ireland, Ltd., and the British American Tobacco Company, Ltd.

<sup>(\*)</sup> Figures compiled from 1934 Year Book, Department of Agriculture.

### 2. Foreign Froduction

Foreign production of the Flue Cured types is confined almost entirely to the British Empire and China. Geographical distribution of British Empire production is found in Canada, South Africa, and India. While no accurate or adequate figures are available covering the production of this type in India, there are, however, records of production in South Africa and Canada for the past ten years.

# TABLE V (\*)

#### FLUE CURED PRODUCTION IN AFRICA

#### (900 omitted)

YEAR	UNION OF SOUTH AFRICA	SOUTH RHODESIA
1927-8	20,579	24, 263
1928-9	12,157	6,060
1929-30	11,962	4,887
1930-1	14,799	7,234
1931-2	20, 700	12,687
1932-3	9, 265	12,927
1933-4	13,725	23,737

The South Rhodesian product is superior to that grown in the Union of South Africa. However, because of its distinctive flavor, which tends to limit its satisfactory blending with other tobaccos, it is much less desirable than the United States product. Novertheless, its use is being exploited principally within the Empire, and may find wider acceptance.

Canadian production of Flue Cured has increased to five times its volume in 1924, — at which time it was 5,479,000 pounds. The peak was in 1932 when 27,941,000 pounds were grown. The crop in 1934 decreased to 22,000,000 lbs. (\*\*) The quality of Canadian Flue Cured and Burley leaf is more nearly equal to that raised in the United States, than that grown in any other country, and hence offers greater competition in quality of leaf than other foreign sources.

India offers greater potential competition than other known Empire sources. Its tobacco production in 1933-1934 was approximately equal to the total United States production.(\*\*\*)

<sup>(\*)</sup> Department of Agriculture, Technical Bulletin 466.

<sup>(\*\*)</sup> Report of Commercial Attache at Ottawa, Department of Commerce, February 26, 1935.

<sup>(\*\*\*)</sup> Bureau of Agricultural Economics, U. S. Department of Agriculture - Tobacco: Production in specified countries, 1933-34. Issued 10-15-35.

In China, production of Flue Cured tobacco began in 1913 when the British-American Tobacco Company sent there a number of American experts to introduce its cultivation, and to train natives in the proper method of its curing. It soon developed that periodic importation of American seed was essential for quality.

Chinese production has increased rapidly, and has now approached the estimated Chinese domestic requirements of 200 million pounds. In 1934 enough was planted to yield this amount, but unfavorable weather reduced the yield to 155 million pounds. (\*)

# 3. Summary

Irrespective of type of quality, the duty on American leaf going into England is approximately \$2.31 per pound. Tobacco imported from Empire countries carries a tariff duty of  $50\phi$  per pound less than that on tobacco from the United States.

Great Britain is the best customer of the United States for Flue Cured tobacco. The type of cigarette popular in England requires a large production of American grown Fright Flue Cured on account of its quality and color. While it is impossible to determine to what extent substitutions of Empire grown leaf can be safely made, without materially changing the taste desired in the English market, it is probable that Great Britain will continue to buy Bright Flue Cured tobacco from the United States in large quantities.

Due, in part, to readjustment in exchange rates between the two countries, exports from the United States to Great Britain in 1933 and 1934 averaged 170 million pounds, larger than for any year since 1923, except the years of 1929 and 1930. 1935 exports to Great Britain totaled 209 million pounds, a larger volume than has ever been exported in any one year since export statistics have been broken down by types (1923). (\*\*) This continued export to Great Britain is direct proof of the superior quality of American Bright Flue Cured.

China has been and still is the second largest actual and potential customer for American Bright Flue Cured tobacco. However, American exporters are definitely threatened with the loss of a large part of this important market because of a native grown type of Bright Flue Cured tobacco of sufficient volume to meet a large part of total requirements. The quality of this Chinese tobacco is inferior to that of the American grown. However, it is suitable for cigarettes which are acceptable to the masses. The well-to-do Chinese and the foreigners who reside in China will probably continue to demand cigarettes that are imported or Chinese made from American tobacco.

While the United Kingdom imports the finer grades of American Flue Cured leaf, China imports the lower grades.

<sup>(\*)</sup> Report of Commercial Attache, Shanghai, Bureau of Foreign and Domestic Commerce, United States Department of Commerce.

<sup>(\*\*)</sup> United States Department of Commerce, Bureau of Foreign and Domestic Commerce, Tobacco Section.

Because of low consumer purchasing power, and substantial supplies of native leaf which can be bought at prices lower than those of comparable American leaf, the price of American leaf is an important factor. As export of leaf to China is primarily to supplement the native supply, quality is not as important as quantity.

In 1928, Flue Cured exports to China were 160 million pounds, representing 36.7% of total United States exports of this type. Since that date, except for the year 1931, there has been a steady yearly decrease in exports of Flue Cured to China. In 1934 American Flue Cured exported to China totaled 53 million pounds, representing 17.5% of total exports of this type. In 1935 China took only 16 million pounds of a total of 290 million, or 5.5% of American exports of this type. (\*)

The situation which is now developing in China is parallel in many respects to that which has taken place within the last few years in the Dark Fired tobacco trade with Italy.

A discriminatory excise has raised the price of cigarettes made from American leaf to a point almost prohibitive except as a luxury article for the well-to-do. But still more important, the illicit manufacture of hand made cigarettes evading the excise has spread to astounding proportions, estimated to be at least one-fourth the total production. These cigarettes contain no American leaf.

Superimposed on these relatively simple and definitive factors is the much more general and aggravating condition of financial and industrial collapse resulting from the recent Chinese depression.

Assuming no change in the grades of this type required for domestic consumption, the loss of Chinese business, unless elsewhere replaced, must of necessity reduce the American farmers' return on the lower grades of American Flue Cured. In 1935 there were but six countries taking more than 5 million pound, each of Bright Flue Cured. In addition to the United Kingdom and China, they are Australia, Japan, Germany and Canada, in the order of their importance.

Taken all in all, the various reasons given for the sharp decrease in exports of this type to China are as follows: Increased native production; relatively high prices for American Flue Cured leaf suitable for China; the Silver Purchase Act; illicit cigarette manufacturing in China; and a strong feeling of Chinese nationalizm. Over a period of time, increased Chinese production and high prices for American leaf will apparently have more weight than the other reasons named.

The spread of cigarette smoking in China has been rapid. It is possible that improvement in economic conditions will increase the percentage of consumption of cigarettes containing American Flue Cured tobacco provided its price is not too far above the price of native leaf.

<sup>(\*)</sup> United States Department of Commerce, Bureau of Foreign and Domestic Commerce, Tobacco Division.

PART II. - THE RELATION OF TRADE BARRIERS TO AMERICAN EXPORT TRADE

#### A. GOVERNMENT MONOPOLIES

Another general influence on United States production and export of tobacco, which is clearly reflected in the figures for Bright Flue Cured, is a combination of various national pressures. These pressures may be the result of internal needs for additional revenues, and express themselves in the form of monopolies. At present, thirteen distinct European countries, two African colonies, two minor countries in South America, and Japan, operate their tobacco business as a government monopoly. Although some of these countries are not natural markets for American tobacco, because of national preferences for Turkish or cigar leaf types, yet the power which monopoly control implies is not conducive to the uninterrupted flow of tobacco from this country.

The manufacture of different grades of tobacco products in monopoly countries affords a degree of choice to the smoker, but the existence of internal pressure for greater revenues without the stimulus of free competition tends to reduce quality and increase profits. Such bargaining power in the hands of a government agency can and does harmonize national desires for exportation of surplus commodities in direct exchange for the tobacco surpluses of other countries, thus avoiding loss of gold in making international settlements. In this respect this country is hampered by its own good fortune, because there are few commodities for which there is a vital need which in turn are surpluses in those countries offering a substantial market for American tobacco. Likewise in respect to countries which supply coffee, rubber, tin, sisal, and cocoa, the need of the United States for their products so far surpasses the needs of those countries for American tobacco, that the United States has comparatively little bargaining power to force the exports of leaf, except where there are alternative sources for those commodities.

Among other trade barriers resulting in diminishing exports of American leaf, mention must be made of the marked effect of the high tariff wall erected by the United States against the free flow of commodities from foreign countries. This policy has distinctly encouraged other countries to impose further restrictions against the use of American-grown tobacco.

# B. PREFERENTIAL DUTIES

In important foreign government policy affecting our foreign trade in leaf tobacco is the British Preferential Duty on Empire grown tobacco. This import duty first came into effect in 1919, and has been raised from time to time. A preferential of fifty cents per pound was established July 1, 1925, an increase from the former preferential of thirty-four cents. At present, tobacco entering the United Kingdom carries a duty of \$1.81 a pound if grown within the Empire, while foreign tobacco must pay a duty of \$2.31. This preferential advantage of a sum greater than the actual average cost per pound of United States leaf acts as a decided impetus to production of Empire tobacco,

and directly affects our outlet for leaf in Empire markets.

The British preferential duty has had a very interesting effect on establishing definite markets for specific qualities of Bright Flue Cured tobacco. It has tended to force into the United Kingdom the highest grades of Bright Flue Cured Tobacco because the actual price per pound of the best quality leaf is rarely as much as this preferential. When the duty plus the preferential is such a large sum, the difference in the warehouse price of various grades is so small that it is not worthwhile to take anything but the better grades. Of course, this cannot be said to be the only reason why the Imperial Tobacco Company, Ltd. and other British companies have consistently bought the higher grades of American leaf, thereby putting millions of additional dollars into the hands of tobacco growers in the South Atlantic states, but it, nevertheless, has been a contributing factor.

In Great Britain it is not permissible by law to add flavoring to cigarettes, nor has there developed as yet a taste for cigarettes made with a blend of Bright Flue Cured and Burley tobaccos similar to those which are popular in the United States. The demand is for a very yellow tobacco, light in color and in texture, and is so pronounced that the consumer in Great Britain will often examine the color of the tobacco in the cigarettes before purchasing them. It has been mainly due to this demand for light colored Flue Cured tobacco which has caused the cultivation of tobacco in the New Belt, or Eastern Carolina section, and the emphasis which has been placed on high color and thin texture.

# C. GOLD EMBARGOS AND QUOTA RESTRICTIONS

Other policies affecting export of American leaf have resulted from general financial distress and inability on the part of many foreign buyers to make gold settlement payments. This condition has created a scarcity of American exchange in the hands of foreign buyers available for the purchase of American goods, and has resulted in the establishment of quotas and exchange restrictions designed to compel the purchase by the United States of foreign goods before the creation of credits for the purchase by foreigners of American products. As this has tended to narrow foreign trade to a bilateral basis, it has seriously impeded the free flow of American tobacco into foreign markets.

#### D. IMPORTANCE OF BRITISH COMPANIES

Overshadowing all these forces and influences on foreign trade in American leaf tobacco, and very accurately reflected in our trade in the Bright Flue Cured type, is the dominating power exerted by two inter-related foreign corporations which together handle almost half the volume of our exports.

Soon after the formation of the tobacco trust in 1901 by the late James B. Duke, there arose very serious problems of price cutting and severe competition in world markets, particularly in the United

Kingdom. After a few years of industrial warfare, a truce was made. Out of the ensuing agreements there was formed the British-American Tobacco Company, Ltd., to which was allocated all world territory outside of the United Kingdom and the United States with authority to use existing brands in those foreign markets. As originally organized, ownership was held two-thirds by the American Tobacco Company (Trust) and one-third by the Imperial Tobacco Company of Great Britain and Ireland, Ltd.

The dissolution suit (\*) in 1911 scattered the American shares into the hands of individuals, but it is understood that the one-third ownership of British American is still held by the Imperial Tobacco Company. The significance of this corporate relationship is that just as the Imperial Tobacco Company dominates the tobacco business in the United Kingdom, so the British-American Tobacco Company through its large number of subsidiaries, dominates the tobacco busines in the British Empire and in certain of the other free markets of the world.

The British-American Tobacco Company has been largely responsible for the introduction of American tobacco into many parts of the world. Individual exporters of American leaf have followed in its wake in order to take advantage of the demand created by the sale of its products, and sell to competing concerns. China is an outstanding example of this development.

As the United States is the most important source of leaf tobacco, both the Imperial Tobacco Company and the British-American Tobacco Company have in this country extensive facilities for purchasing and handling their requirements.

In order to maintain or increase their profits, and in order not to be entirely dependent upon one source of supply, each of these companies is under pressure to substitute Empire or native leaf to the extent that its customers will accept the product without complaint. The result is that both companies are active in the exploitation of native grown tobaccos to further their own financial interests, and be assured of a continuity of supply.

Thus it is that almost one-half of the foreign trade of the United States in leaf tobacco is controlled by two-inter-related foreign corporations whose financial interests are enhanced by the degree of their freedom from the American source of supply.

#### E. CONCLUSION

It is unnecessary to do more than indicate the direct relation that United States tobacco exports bear to the industrial prosperity of other countries.

The policies of the two major foreign tobacco corporations and their dominance in world trade are conditions that must be faced by American exporters of tobacco leaf. It must not be overlooked that both of these corporations are buying, and will continue to buy,

<sup>( \* )</sup> See Chapter I, this study.

large quantities of American leaf.

It is generally conceded that Bright Flue Cured tobacco grown outside of the United States lacks the aromatic qualities characteristic of that grown in this country. It is impossible to determine as yet to what extent soil and climatic conditions are responsible for this difference in quality, or what improvements in foreign Flue Cured tobacco may develop from an increasing knowledge of its cultivation and curing.

As evidenced in the United States by the change in consumer habit to the cigarette, and in consumer taste to the blended type of cigarette, there are distinct opportunities in world trade for the sale of mild tobaccos, such as Bright Flue Cured and Burley. This particular subject needs the joint cooperation of the Department of Agriculture, the Department of Commerce, and the exporters of leaf tobacco.

A failure to restore the Chinese market or to replace it cannot but result in a surplus of Flue Cured stocks of the lower grades. Problems of this character reflect the need of continued control of American production.

On account of the continued replacement of native by American seed in most foreign countries producing the Flue Cured type, the suggestion has been made that an embargo be placed on exportation of tobacco seed. However, the seed is so small that it is highly improbable that its exportation could be controlled by law.

The Tobacco Association of the United States has never been conspicuously active and until 1935 it had given little attention to analysis of foreign trade in leaf tobacco. As in so many other industries, prior to the world depression and without the limitations resulting therefrom, the business of exporting leaf tobacco was increasing in size and generally producing a profit satisfactory to the exporters. The many problems that exporters of American leaf face today require complete analysis and research; otherwise, the economic prosperity of those agricultural sections growing export types of leaf tobacco is seriously threatened.

Some months ago, in cooperation with the Tobacco Division, Bureau of Foreign and Domestic Commerce, and a committee appointed by the Tobacco Association of the United States, the Tobacco Unit of the Industry Studies Section of the National Recovery Administration made statistical surveys of the tobacco industry in four South American countries. These surveys covered every phase of the industry insofar as information was available, and included imports of leaf and manufactured tobacco products, as well as production of leaf and tobacco products and consumption of tobacco products.

When this work was completed in December 1935, the committee appointed by the Tobacco Association of the United States met in Washington, for the purpose of going over and analyzing these surveys. Conferences were later held by the Committee with the

Assistant Secretary of Commerce and the Secretary of State. All of the members of the Committee were active leaf dealers with export connections. They were much interested in the trade agreements that have been and are being negotiated with certain foreign countries, and the consideration to be given the export of leaf tobacco.

The committee considered that these surveys were indicative of considerable possibilities of export expansion, and at a later meeing of the Board of Governors of this Association, a resolution was passed requesting that the Tobacco Unit be asked to make similar surveys for a large number of additional countries, inasmuch as information contained therein had not heretofore been compiled by any Governmental agency for reference use by the industry. The information contained in these surveys could have been available to the trade by its own effort. It is, therefore, definitely recommended that the tobacco industry continue the type of analysis contained in these surveys and carry on essential research work on a much broader scope.

Elsewhere there has been discussed the limited scope of research on tobacco by the Bureau of Agricultural Economics of the Department of Agriculture., and the reason therefor. Sums allocated to the Tobacco Division of the Bureau of Foreign and Domestic Commerce are equally inadequate, and do not permit the widest cooperation with industry in the collection and dissemination of data essential to development of foreign trade in tobacco. An industry which contributes so large an amount to Government income should at least be compensated by liberal research facilities for the development of its trade.

#### CHAPTER V

#### THE CIGAR MANUFACTURING INDUSTRY

# SUMMARY

This industry has suffered from a declining volume of production since 1920 and a decrease in per capita consumption since 1905. Over-capacity, with its destructive competition, has been increasingly apparent. Since the amount of tobacco manufactured into cigars and cigarettes combined has increased steadily during the period, it is apparent that the principal cause of the declining demand for cigars has been a switch in consumer preference to the highly advertised cigarette.

There has been a continuous increase in the relative proportion of cheaper grade cigars produced since 1918 at the expense of the better quality groups. In 1918 cigars retailing at five cents, or under, amounted to but 18 percent of the total production; in 1935, the proportion had risen to 87.5 per cent. It is estimated that this trend, coupled with the declining volume of production, has approximately cut the total dollar volume of cigar sales in half in the last fifteen years.

The probable cause of this trend to low priced cigars has been an increasingly active competition first, among cigar manufacturers, and secondly, with cigarettes. Competition has forced a progressive improvement in the average quality of these cigars. This, in turn, was made possible by lower leaf tobacco prices and increased efficiency of manufacture due to the introduction of cigar-making machinery.

A machine which manufactures leaf tobacco into a finished cigar comparable to the hand-made product was patented in 1917. The increasing use of this machine since has revolutionized the industry. It has caused displacement of older, skilled hand cigar-makers by a smaller number of younger machine operators. It has resulted in a further displacement from the industry of men whose places have been taken by women at lower wage rates. Machine use has established a standard of competition such that hand manufacturers can survive only by paying pitifully meager wages to their employees. Paralleling the problem of wages paid by hand-made cigar manufacturers, the wage rates in effect throughout the machine-made cigar industry provided but a bare subsistence for the workers.

Because of its cost, the machine has been available only to the large manufacturer with adequate financial resources. Small companies have been forced to the wall, Since 1921, the number of plants in operation has been reduced by more than half, while production in plants of over 40,000,000 cigars annual capacity has more than tripled.

It is estimated that about half of all cigars produced in 1933 in the United States were machine-made. No obstacle to prevent 99 per cent of all cigars from being made by machine is apparent. Indeed, economies inherent in the use of the machine would seem to make this step inevitable. Nearly complete mechanization of the industry would probably result in the

further displacement of 15,000 more wage earners, and a further elimination of small enterorises.

The reduction in total employment since 1919 has been spectacular. In that year, the Census reported 114,300 wage earners in the industry; this number 54,600 in 1933. About 45,000 of these workers were displaced, it is estimated, because of decreased volume of production and approximately 15,000 because of the introduction of machines.

The combined forces developed from industry decline and mechanization have produced a distress from unemployment that started almost fifteen years ago. These forces will continue until the industry is completely mechanized. Economic pressure from lessening volume and lower profits is responsible for present wage levels in the manufacture of the 2 for  $5\phi$  and the  $5\phi$  cigars. The wage now paid to labor is indicative of lack of a sense of responsibility in the industry as a whole.

The surprising variation in labor costs between the "2 for  $5\phi$ " (Section D, part 2) and higher priced grades (Table XIII) makes this question pertinent—can a "2 for  $5\phi$ " cigar be made and labor receive a living wage?

The grower of cigar leaf tobacco has suffered from progressively lowered prices since 1919. In 1932, the total revenue to growers in most districts was a small fraction of that in many previous years. The price decline was probably a reflex of the ebbing demand for cigars. A slight recovery was apparent in 1933 and 1934, presumably due to the operation of the Agricultural Adjustment Act. In the interest of the farmer, also, the right of the 2 for 5¢ cigar to exist must be determined.

"Barn-buying" by large manufacturers has increased. How far this has operated to the detriment of farmers, uninformed of important market factors known to buyers, is not clear. The subject should be studied.

The need of research into all the problems present in the cigar making industry is emphasized on every hand. The industry is demoralized in every branch. A few large, efficient corporations have held their heads above water; the bulk of the industry is on the verge of bankruptcy.

# A. DEFINITION AND PRESENT POSITION OF INDUSTRY

#### 1. Definition of the Industry

The Cigar Manufacturing Industry was described in the Code of Fair Competition approved by the President April 23, 1935, as meaning and including "the manufacturing into cigars of cured leaf tobacco, stemmed tobacco, scrap, and/or shredded filler for use in the manufacture for sale of cigars".

The first step in the manufacture of cigars is the assembly of the leaf tobacco. About 20 per cent of the total leaf tobacco used in the manufacture of cigars in the United States

is imported, principally from Cuba, Puerto Rico, and the Philippine Islands. (\*)

A cigar is generally made from three types of leaf -- filler, binder and wrapper. The filler, a clump of loose leaves or cuttings, constitutes the body of the cigar and gives the smoke its aroma; the binder, a single leaf, holds together the filler leaves; while the wrapper, another single leaf, forms the outside covering and gives the cigar its color, and smoothness to the touch. Some cigars, such as the stogic and cheroot, are made occasionally without binder. In such cases only two types of leaf are used.

Differences in quality and price of cigars are due principally to differences in quality of leaf used. A "long-filler" cigar, made of leaves of uniform length and quality with shade-grown binder and imported wrapper, may embody tobacco that cost fifty times as much as in a "scrap-filler" cigar, made of short leaves and "cuttings" and domestic binder and wrapper.

Cigars may be made by hand or by machine. The first steps in either process are the same. The tobacco must be properly cured, stripped (this involves removal of the hard mid-vein of the leaf), and "cased" (moistened to a degree where it may be easily manipulated). After this, the hand cigar-maker or the machine takes over.

(a) Description of Hand Manufacture of Cigars

The simplest and earliest method of making a cigar is still in use in some shops, particularly those making higherpriced cigars. It is referred to as an "out-and-out" method. The workers use no tools except a knife with a curved blade and a board on which to work. The worker cuts a thin strip from a wrapper leaf, another from a binder, and selects the right amount of filler leaves. He then fashions the filler into proper form and size in the palm of his hand, and wraps it in the strip of binder making the "bunch." This is then placed on the strip of wrapper which lies flat on the board, and with a deft rolling movement the worker fashions the cigar, beginning at the lighting and finishing at the end which goes into the mouth, called the "head". It is necessary to trim the wrapper a trifle just before the head is formed; then, with a bit of gum tragacanth, the last bit of wrapper is fastened securely, and the head is smoothed between the thumb and forefinger. The cigar is then put in a gauge which stands on the table in front of the worker and trimmed to the proper length.

<sup>\*) &</sup>quot;The Cigar Industry and the Tariff", United States Tariff Commission Report, No. 62, Second Series, 1933, p. 11.

This "out-and-out" method of cigar making prevailed generally until the introduction of the mold in 1869. The mold is a wooden block with cigar-shaped grooves carved in it, generally fifteen in number. Eunches of leaves are placed in these grooves, a duplicate block is placed on top and the two are put under pressure for a few minutes. The blocks are then separated and the bunches are ready for wrapping.

The mold made it possible to introduce division of labor into cigar-making, since one bunch-maker could supply bunches for two wrappers. This arrangement has come to be known as the "team-work" system. Whereas one "out-and-out" worker might average only thirty cigars an hour, a "team" of three workers using molds might average 130 or more per hour. In addition, a shorter training period was required, at least for the bunch-maker.

Several decades after the mold came into use, the suctiontable was introduced. This consists of a metal sheet with a perforated plate in the center, the plate being just the right size and shape for the cigar wrapper. The wrapper leaf is placed on the plate and held down firmly by air suction through the perforations. A foot pedal raises the plate, and a roller is passed over it cutting the leaf on the plate's sharp edges.

Although the mold and the suction-table have changed the cigar-maker's trade considerably, these devices can hardly be called machines, since they assist rather than displace the skilled hand cigar maker.

(b) Description of Machine Manufacture of Cigars.

Since 1900, cheap cigars have been made by the use of the short-filler bunching machine which rolls bunches automatically and requires no labor except that necessary to feed the hopper with filler and to place the binders. These operations can be performed by unskilled labor.

The superiority of the hand-made product was not threatened until 1917 when a machine was patented that performed both the binding and wrapping operations and turned out a finished cigar comparable with the hand-made article.

Four operators are required for each cigar machine, one to place the filler on an endless feed belt, a second to place the binder leaf on the binder die, a third to place the wrapper leaf on a wrapper die, and a fourth to "catch" and inspect the finished cigar. In addition, a skilled mechanic is required for every "battery" of eight or ten machines to make repairs and adjustments necessary to adapt the machine to different sizes and shapes of cigars.

The machine performs the operations of the hand cigar maker mechanically. Knives cut the filler to the proper length; corrugated rollers compress it and pass it to apportioning knives where just the right amount of filler is cut off to make a bunch. The bunch is tapered and rolled in the binder, and then passed to the wrapper, spirally wound, formed, sealed, and clipped to the right length. The head end is smoothed by a knurler, and the cigar is dropped on a table for inspection. One of these machines will produce about 480 cigars per hour (\*).

# 2. Present Position of the Industry

(a) Number of Establishments.

The Census of Hanufactures of 1933 reported 665 cigar manufacturing establishments making products valued at \$5,000 per year or more. The Bureau of Internal Revenue reported 5,787 concerns making large cigars registered for purposes of taxation at the end of the same year. The difference was made up largely of small one-man concerns producing cigars valued at less than \$5,000 per year. At the end of 1934, the Bureau of Internal Revenue reported 5,473 concerns registered.

(b) Total Investment.

No figures as to total investment in the cigar manufacturing industry are available. It was ascertained from Bureau of Internal Revenue figures that at the end of 1933, twenty-eight concerns producing over 40,000,000 cigars per year and producing 50.3% of the total number of cigars produced during the year represented an investment of \$103,300,000. Since these concerns represent the more highly mechanized plants, it would seem probable that investment per unit of production is smaller for the balance of the industry. On the above basis, total investment in the industry may be estimated at \$150,000,000 to \$200,000,000.

# (c) Annual Production

According to the Bureau of Internal Revenue, 4,300,000,000 large cigars were manufactured from 88,463,000 pounds of tobacco in 1933, and 4,525,800,000 large cigars were manufactured from 94,686,000 pounds of tobacco in 1934.

The 1933 Census of Manufactures listed the value of the product of the industry at \$139,373,000.

For tax collection purposes the Bureau of Internal Revenue classifies cigars into five classes according to their retail value. The classifications are arranged as follows:

<sup>( \*)</sup> A more detailed description of the operation of the cigar making machine is given on pp. 11-13, Monthly Labor Review, Dec. 1931.

Cigars which are manufactured to retail at:

Not more than 5 cents each are designated as Class "A".

More than 5 cents and not more than 8 cents each, as Class "B".

More than 8 cents and not more than 15 cents each, as Class "C".

More than 15 cents and not more than 20 cents each, as Class "D".

More than 20 cents each, as Class "E".

In 1935, Class "A" cigars represented 87.5 per cent of the total number of cigars produced; Class "B" represented 1.4 per cent; Class "C", 10.2 per cent; Class "D", 0.8 per cent; and Class "E", only 0.1 per cent. (\*)

# (d) Employment.

The Census of Manufactures of 1933 listed 54,558 wage earners and 1,637 salaried employees in the Cigar Manufacturing Industry. Wages paid during the year were given as \$30,061,000 and salaries as \$2,802,000.

A special tabulation as of July 1, 1933 was made for the National Recovery Administration by the Bureau of the Census. This tabulation covered 815 factories and listed 52,273 wage earners. These were composed of 10,927 men and 41,346 women; 15,955 were machine workers and 36,318 hand workers. The average weekly payroll for the period January to July, 1933 was given as \$474,041.

# B. DEVELOPMENT OF THE INDUSTRY

Cigar manufacturing was introduced on a commercial scale in this country about the year 1800. It was in general a small scale operation employing skilled hand labor. The typical cigar shop was the establishment of an owner-worker who bought his leaf, made his cigars, and sold them locally, perhaps in the front of his shop. The typical method of manufacture has been described in the preceding section.

Little change was apparent in the industry until 1862 when the Internal Revenue Law imposed a tax on cigar and required the bonding of factories. The smaller shops found this burden difficult to bear.

<sup>( \*)</sup> Compilation from figures of the Bureau of Internal Revenue. See Table XXII, this chapter.

The introduction of the mold in 1869 made division of labor in cigar making economical, and further increased the advantage of the larger over the smaller shops. During the decade that followed, the cigar industry experienced tremendous growth through tariff protection and the swing of fashion toward cigar smoking, and in that period the factory system became firmly established (\*).

Increasingly bitter competition, described by the Supreme Court as "fierce and abnormal" (\*\*), had the effect of bringing about a combination of five important cigarette and tobacco manufacturing concerns in 1890 by the formation of the American Tobacco Company. This trust, by acquiring other important concerns, established its position so strongly that by 1901 its proportion of the country's output of plug and twist was 68 per cent; and of smoking tobacco, nearly 60 per cent; of snuff, over 80 per cent; of cigarettes, 90 per cent; and of "little cigars", 73 per cent (\*\*). The only important field that remained to be conquered was the manufacture of cigars, and to that task its energies were next directed (\*\*\*).

The American Cigar Company was incorporated in January, 1901. The trust subscribed to 70 per cent of the stock, transferred to it the cigar properties which had previously been acquired, and acquired or organized new companies (\*\*\*\*). Between 1900 and 1903, the trust increased its proportion of the country's cigar production from 4.8 per cent to 16.4 per cent, using the customary methods of cutting prices, giving premiums, and advertising extensively. After that year, however, its production of cigars declined, while that of the independent manufacturers increased. At no time thereafter did the trust make more than 15 per cent of the cigars produced in this country. It was apparent that the cigar branch of the industry could not be captured so readily as had been the other branches of the tobacco industry.

The principal reason for the failure of the trust to establish itself in a dominant position in the cigar industry lay in the fact that machinery for making cigars had not been developed to such an extent as to disqualify the small manufacturer from successful competition. Cigar factories could be started overnight with very little capital, and could compete on fairly even terms with longestablished concerns. It is worth noting that, whereas the trust's profits from its cigar business were relatively low (\*\*\*\*\*), the trust held a position near to monopoly in the manufacture of "little cigars" where machinery was successfully used.

- ( \*) Twelfth Census of the United States, Vol. 9, p.671, et. seq.
- ( \*\*) 221 U.S. 157 (1911).
- ( \*\*\*) Report of the Commissioner of Corporations on the Tobacco Industry, 1909, Part 1, pp. 365,383, 399, 327.
- (\*\*\*\*) Ibid, pp. 149,164, 286-302, 416-430.
- (\*\*\*\*) MS. "Labor in the Tobacco Industry," by John P. Troxell, 1931.
  National Recovery Administration files: Study Materials of the
  Tobacco Study Unit, Labor.
- (\*\*\*\*) Report of the Commissioner of Corporations on the Tobacco Industry, 1915, part III, p. 195.

The obvious way to establish supremacy in cigar production was to develop machinery for making cigars. The trust endeavored to do so. It organized the American Machine and Foundry Company in 1900 and later acquired the International Cigar Machinery Company. The work planned was sharply interrupted. The tobacco combination was declared to be in restraint of trade by the Supreme Court of the United States in 1911 (\*), and it was not until 1917 that a satisfactory cigar-making machine was patented.

During all this period, the number of cigars produced annually has been increasing. Cigar production reached an all-time high of 8,096,800,000 in 1920. Since then production has steadily decreased, dropping to 4,300,000,000 in 1933, the lowest mark since 1897.

Mechanization became an important factor. From its introduction in 1918, the machine has been increasingly used. It has been estimated that in 1931, 2,912,000,000 cigars, or 55 per cent of the total output, were machine-made (\*\*). Mechanization has turned the scale against the small companies to the benefit of larger concerns. The small shop without sufficient resources to install machines has found it increasingly difficult to compete with the highly mechanized factory. The result has been a high mortality among small manufacturers and an increasing concentration of production in the large cigar manufacturing concerns. The following table makes this evident:

TABLE I

Number of Factories Producing Large Cigars and Percentage of Total Production, Classified as to Output Calendar years 1921, 1926, and 1934

	1921			926	1934		
Output of Cigars (Number)	of Fac-	: Percent : : of total: : Produc- : : tion	of Fac-: tories :	of total:	of Fac-: tories :	of total	
Under 500,000 500,000 to	:13,149	13.7	9,281	8.0	5,708	5.9	
40,000,000	: 1,418	70.6	943	67.0	. 424	39.8	
Over 40,000,000	11	15.7	23	25.0	28	54.3	
Total	14,578	100.0	10,247	100.0	6,160	100.0	

Source: Annual Reports of the Commissionery of Internal Revenue.

In favor of the machine it must be said that it has made possible the manufacture of a higher quality product at a lower price.

<sup>\*) 221</sup> U.S. 106 (1911).

<sup>\*\*)</sup> Monthly Labor Review, December 1931, p. 13.

The distress of the industry in the face of declining total demand has been further accentuated by a shift of consumer preference from high to low priced cigars where profit margins are slim. In 1918, only 18 per cent of the total production was in the Class "A" group (retailing at five cents or less). By 1935, this percentage had risen to 87.5 (\*).

Employment has fallen off steadily since 1921. In that year the Census of Manufactures reported 119,000 wage earners employed by the Industry. This number fell to 54,558 in 1933. Already in jeopardy because of declining production, employment suffered further through the inroads of the machine. It was estimated in 1931 that 21,356 employees had been displaced between 1917 and 1931 by machines (\*\*).

Manufacturers have been forced to make every conceivable economy in order to stay in business. The minimum wages negotiated in the National Recovery Administration Code for the Cigar Manufacturing Industry were extremely low (from \$9.00 to \$13.60 per week), but many manufacturers contended that they could not pay even those rates and continue operations.

In the last decade the cigar manufacturing industry has been a demoralized and a declining industry. Public preference seems definitely to have swung away from the cigar to the cigarette. Whether this tendency has reached a static level, whether it will continue, is impossible to say. Only in a return of the cigar to public favor is there hope for the cigar manufacturing industry.

<sup>( \*)</sup> Computed from figures of the Bureau of Internal Revenue. See Table XXII, this chapter.

<sup>( \*\*)</sup> Monthly Labor Review, December, 1931, p. 13.

# C. LABOR IN CIGAR HANUFACTURING

#### 1. Employment

A discussion of labor in this industry is handicapped by a lack of current statistics. In general, the most recent figures on employment are those developed during a special survey undertaken in 1933 by the Census of Manufactures at the request of the National Recovery Administration.

It was originally contempleted that the Bureau of Labor Statistics would conduct a survey of labor in the Cigar Manufacturing Industry in 1935 which would be available to this study. Unfortunately, this survey has only recently been started and returns are not now available.

The Works Progress Administration, in collaboration with the Bureau of Labor Statistics, is at present engaged in a nation-wide study of "Reemployment Opportunities and Recent Changes in Industrial Techniques". The Tobacco Industry, including the Cigar Manufacturing Industry, is one of the industries to be studied. When completed, this study should prove a valuable addition to the bibliography of this subject.

# (a) Total Employment

The number of wage earners in the cigar manufacturing industry from 1919 to 1933 as given by the Census of Manufactures is shown in the following table. It will be noted that employment has been cut in half during the period. A part of this decline has been due to decreased demand for cigars and a part to the increasing use of machines to manufacture cigars with a consequent displacement of workers. The factors leading to this decline in employment are discussed under the heading of "Mechanization" in this Chapter.

TABLE II

Number of Wage Earners in the Cigar Industry - 1919-1933.

	Year	Wage	
		Earners	
	1919	114,300	
	1921	119,000	
	1923	108,800	
	1925	103,000	
	1927	94,600	
,	1929	84,200	
	1931	68,200	
	1933	54,600	

Source: U. S. Census of Manufactures.

(b) Division of Employment by Sex

Comparable figures on division of employment by sex over a period of years are not available. In 1925 a questionnaire was sent to all local unions by the president of the Cigar Makers' International Union of America (\*). This survey indicated that there were approximately 100,000 persons employed in the industry, which compared favorably in coverage with the 103,000 estimate of the Census of Manufactures for the same year. About 79,000 of the 100,000 workers were cigar makers, and of these 50,600, or 64 per cent, were women.

These figures on cigar makers may be compared roughly with figures on pieceworkers developed through a special survey undertaken in 1933 by the Bureau of the Census at the request of the National Recovery Administration (\*\*). Of a total of 52,273 wage earners covered by the survey, 38,941 were pieceworkers and of these 30,496, or 78 per cent, were women.

Comparison of the percentages given in the two above paragraphs confirms the general impression that relative employment of women by the industry is increasing. This tendency has been accelerated by the introduction of machines. Other figures developed during the special Census survey sustain this observation. Of 26,940 hand pieceworkers, 8,422 were men, but of 12,001 machine pieceworkers, only 23 were men.

(c) Division of Employment by Occupations

The firm of Rossmore, Robbins and Co., Inc. of New York City made an investigation of the Cigar Manufacturing Industry in 1933 at the request of a committee of cigar manufacturers who were seeking a Code under the National Industrial Recovery Act. This study was based on answers to questionnaires and covered manufacturers producing 50.6 per cent of all cigars made during the period, May . June and July, 1933. The study covered machine manufacturers particularly, but a fair sample of hand manufacturers were included. The following table is taken from this report.

(\*\*) National Recovery Administration files; Study Materials of the Tobacco Study Unit, Labor.

<sup>(\*)</sup> Perkins, George T., "Women in the Cigar Industry", The American Federationist, September 1925, Volume 32, pp. 808-810.

TABLE III

Average Number of Employees of Various Types
1929 and 1932

Types of Work	1929	1932
HAND FACTORIES:		
. Cigar Malters	5,921	4,223
Strippers	598	360
Other Processors	220	213
*Factory workers not included above	1,103	663
**Workers not at factory	44	19
· Total	7,886	5,478
	•	
MACHINE FACTORIES:	•	
Cigar Makers	8,212	9,182
Strippers ·	4,118	3,103
Other Processors	2,009	1,896
*Factory workers not included above	3,861	4,154
**Workers not at factory	<u>334</u>	276
Total	18,534	18,611
GRAND TOTAL	26,420	24,089
· *	,	

The principal item of interest in the above table is that workers engaged in the cigar making operation account for only 44 to 49 per cent of all employees in the mechanized factories, while they represent 75 to 77 per cent in factories producing hand-made cigars.

# (d) Seasonality of Employment

No monthly employment figures for this industry are available; however, it may be assumed that seasonality of employment will follow, roughly, seasonality of production. The following table lists indexes of seasonal production.

<sup>\*</sup> Included in this category are a small number of employees not at the factory but engaged in work applicable to factory operations, e.g., cost accounting.

<sup>\*\*</sup> Employees (excluding officers) not embraced in any of the above classifications.

Source: Report of Rossmore, Robbins and Co., Inc., November 3, 1933, on establishment of a Code of Fair Competition.

TABLE IV

SEASONAL INDEXES OF PRODUCTION, 1930 - 1935 a/

Month	1930	1931	1932	1933	1934	1935
January	85.4	81.9	92.6	81.9	88.0	82.5
February	82.9	81.6	93.9	99.4	78.1	80.8
March	92.7	99.4	96.0	80.1	92.4	88.6
April	95.8	103.7	94.5	88.7	90.0	94.1
May	106.7	105.4	100.0	102.6	99.2	102.7
June	105.9	116.7	108.1	115.6	105.5	101.3
July	108.6	108.0	97.6	110.6	98.6	108.8
August	105.4	104.5	108.3	120.1	111.0	106.4
September	106.8	101.4	109.5	117.0	103.0	108.5
October	127.2	120.6	118.0	112.8	129.0	132.1
November	107.6	107.7	113.2	114.7	121.6	115.2
December	71.2	68.7	68.9	76.4	82.9	78.8
Average.	100.0	100.0	100.3	100.0	100.0	100.0

A marked seasonal pattern for this industry is apparent. The pattern varies little from year to year. Taximum production is usually reached in October and minimum production in December.

# (e) Regional Concentration of Employment

Employment in the cigar manufacturing industry is markedly regional in character. The greatest employment is found in Pennsylvania, followed in order by Florida, New Jersey, New York, Ohio, Michigan and Louisiana. (Table V)

a/ Base: For each year, average production per month = 100.

Source: Computed from tax paid withdrawals of large cigars as reported by the Bureau of Internal Revenue.

# Cigar Workers - Number as of July 1, 1933, by States

State	Number of Workers
United States	52,273
California	633
Connecticut	467
Florida	8,639
Illinois	401
Indiana	769
Louisiana	. 980
Massachusetts	529
Michigan	2,965
Missouri	459
New Jersey	6,965
New York	3,341
Ohio	2,981
Pennsylvania	16,122
West Virginia	711
All other states	6,590

Source: Special survey made in 1933 at the request of the National Recovery Administration by the Bureau of the Census.
National Recovery Administration file: Study Materials
of Tobacco Study Unit, Labor.

# (f) Distribution of Employees by Size of Company

Using the number of workers employed as the criterion of size, it will be seen from the following table that the great bulk of employment in the industry is provided by the larger factories.

TABLE VI

Number of Wage Earners Classified According to Size of Establishment, 1931.

Class of estab- :		;	
lishment by :	Number of	;	Wage Earners -
number employed :	Establishments	: Number	: Per cent of total
1001 to 2500	13	16,476	24.2
501 to 1000	24	16,984	24.9
251 to 500	32	11,565	17.0
101 to 250	70	11,333	16.6
51 to 100	. 62	4,290	6.3
21 to 50	107	3,570	5.2
6 to 20	249	2,700	4.0
1 to 5	488	1,264	1.8
No wage earner	18		do-th could good
Total	1,063	68,182	100.0

# (g) Distribution of Employees by Ages

The Code Authority for the Cigar Manufacturing Industry submitted a frequency distribution of ages of 1,908 hand cigar rollers of Class "A" cigars in 78 factories in the York County Pennsylvania District to the Mational Recovery Administration on October 2, 1934. This table follows.

#### TABLE VII

Frequency Distribution of Hand Cigar Rollers of Class "A" Cigars in the York County Pennsylvania District as to Age, August 1934.

Ages of Cigar Rollers (inclusive)	Number of Cigar Rollers in Each Age Classification
16 - 25 wears 26 - 35 36 - 45 46 - 55 56 - 65 66 and over	202 382 478 528 268 
	1,908

Source: Report of Code Authority for the Cigar Mannfacturing Industry to National Recovery Administration, October 2, 1934, NRA Files.

Many of the cigar rakers were in advanced age groups, the modal age being between 46 and 55.

No statistics as to ages of machine cigar makers are available to compare with the above, but it is the opinion of field observers of the National Recovery Administration that average ages of machine workers are much lower than those hand workers.

#### 2. Hours of Employment

No long period figures on hours of employment in the Cigar Manufacturing Industry alone are available. For the Census years 1914, 1919, 1921, 1923, 1929 and 1931, the Census of Manufactures presen's a frequency table showing the number of wage earners working between certain specified hours per week. From this table and the Census of Manufactures figures for total employment, it is possible to derive estimates as to the average number of hours of employment per week (following table).

These figures, it must be pointed out, represent both the cigar and cigarette industries, but since employment in the former is greater, they may perhaps be relied on to indicate the general trend. (\*)

#### TABLE VIII

Average Hours Worked Per Week - Cigar and Cigarette Industries 1914 - 1931

Year	Average Hours per Week
1914	52.9
1919	49.8
1921	49.5
1923	49.6
1929	49.0
1931	47.1

Source: Computed from statistics of Census of Manufactures.

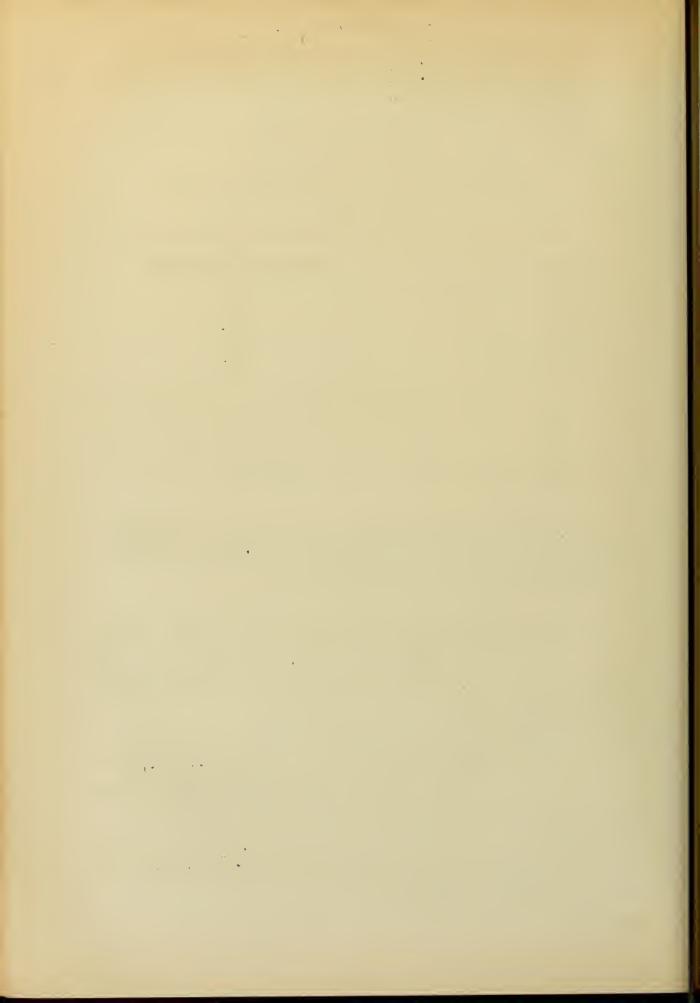
A glance at the figures in the above table will show that the average number of hours worked per week has been declining continuously.

The Census of Manufactures, at the request of the National Recovery Administration, made a compilation of employment data as of July 1, 1933, covering all manufacturers making \$5,000 or more worth of products per year. The figures in the table below are compiled from this source.

According to the above compilation the wage earners in the industry worked on the average 41.3 hours per week. Machine workers in every occupation worked on the average more hours per week than did hand workers, and time workers on the whole worked less hours than piece workers. It is interesting to note that wage earners were employed on the average less than 5 days per week.

Two other sources of information as to hours per week are available. The following table was compiled from data included in the report of Rossmore, Robbins and Co., Inc., of November 3, 1933 (for description of this report see this section on "Employment", under the heading of "Division of Employment by Occupations".

<sup>(\*)</sup> Employment, Cigerette Mfs. Ind. = 42,000, see Chapter II, this report. Employment, Cigar Mfg. Ind. = 54,000, 1933 Census of Manufactures.



Number of Wage Earners, Average Hours Worked
Per Day and Per Week, and Average Days
Worked Per Week, July 1, 1933.

			Earners:		Per	: Average Days : Worked Per
Occupation	:Total	: Male	: Female:	Day:	Week	: Week
Time Workers Packers						
Machine Hand			152 1,979	8•33 8	41.6 40.0	5 5
Strippers	0.040	10	7 070	0.55	20 E	0
Machine Hand	•		3,036 2,350	8	37.5 36.0	4.5 4.5
Selectors	451	95	356	8.5	42.5	5
Miscellaneous Machine		120	574	9	45	5
Hand	2,239	1,217	1,022	8.5	42.5	5 .
Total all tim workers		2,077	9,469	8.3	39•4	4.8
Piece Workers	10 001	23	11 070	0.00	A 7 7	E
Machine		8,422	11,978 18,518		43.3 41.2	5 <b>5</b>
Combination Total all		405	1,381	8.33	41.6	5
piece worker	s 40,727	8,850	31,877	8.38	41.8	5
Total all mach						
workers Total all hand		215	15,740		42.2	4.90
workers	34.081	10,212	23,869	8.23	39.0	. 4.96
Total all work	_					
ers	52,273	10,927	41,346	8.35	41.3	4.95

Source: Computed from data compiled by the Census of Manufactures.

TABLE X

Average Hours Worked Per Veek For Various

Average Hours Worked Per Week For Various Types of Employees and Periods Indicated

		:	Ave	rage Hour	s.Per	Week
	Types of Work	:Entire	Year:	Entire Y	ear :	Three Months
		: .1929	:	1932	:	ended July 31,
		:	:		:	1933
FIA	FID FACTORIES					
	Cigar Makers	50.5	;	40.6		37.2
	Strippers	50.4	:	42.5		37.7
	Other Processors	50.7		41.8		38.2
	Factory Workers not					
	included above	50.0		41.8		37.8
1.EA	CHINE FACTORIES					
	Cigar Makers	50.4	•	40.0		41.7
	Strippers	51.8		41.3		42.4
	Other Processors	51.1		41.4		42.4
	Factory Workers not					
	included above	50.9		41.9		41.9

Source: Report of Rossmore, Robbins Co., Inc., in re establishment of a Code of Fair Competition, November 3, 1933 (see text above.)

It will be noted that the figures developed in the Rossmore, Robbins Co. report agree with those of the Census given in Table IX.

A survey of the Hand-Made Cigar manufacturing industry was made November 11, 1933 for a committee of hand-made cigar manufacturers seeking a code, by S. D. Liedesdorf and Co., of New York City. This survey covered approximately 40 percent of all manufacturers of hand-made cigars producing more than 1,000,000 cigars per year. The principal coverage was in the York County, Pennsylvania, district.

A frequency distribution of employees as to number of hours worked per week was included in the Liedesdorf report. The modal number of hours worked per week was shown to be between 50 and 55. The average hours worked per week were computed at 47.6. A comparison of these figures with those developed by the Census indicates that hours of labor in these large hand factories, particularly in the York County, Pennsylvania, district, were somewhat longer than in the United States as a whole.

#### 3. Wage Rates and Earnings

(a) Annual Wages and Annual Payrolls

The following table shows the annual payroll and the average annual wage in the Cigar Manufacturing Industry from 1923 to 1933.

#### TABLE XI

#### Annual Payroll and Average Annual Wage

# Cigar Industry

1923 - 1933

Year	Annual Payroll (thousands of dollars)	Average Annual a/ Wage per Worker (dollars)	Average <u>b</u> / Weekly Wage per Worker (dollars)
1923	90,860	<b>83</b> 5	16.06
1927	76,470	809	15.55
1929	67,220	799	15.37
1931	46,070	676	13.00
1933	30,061	551	10.60

- a/ Annual payroll divided by number of workers.
- b/ Average annual wage per worker divided by 52.

#### Source: Census of Manufactures

The annual wage per worker has declined steadily since 1923.

(b) Weekly and Hourly Earnings in the Cigar Industry Compared to other Manufacturing Industries.

Weekly and hourly earnings in the Cigar Industry from 1921 to 1931 are compared to earnings in 24 other principal manufacturing industries selected by the National Industrial Conference Board in the following table.

#### TABLE KII

Weekly and Hourly Earnings in the Cigar Industry Compared with Those in 24 Principal Manufacturing Industries

1921 - 1931

Year	·; ;	Average Earn Cigar Indust			:		ernings in the fanufacturing stries <u>b</u> /	
74	:	Weekly (Dollars)	:	Hourly (Cents)	:	Weekly (Dollars)	:	Hourly (Cents)
1921		15.73		31.8		23.91		5.30
1923		16.06		32.4		26.93		54.8
1929		15.37		31.3		28.81		59.2
1931		13.00		27.6		22.64		56.5

- a/ Census of Manufactures Weekly earnings figures obtained by dividing reported annual payroll by number of workers and then by 52. Hourly earnings estimated by dividing weekly earnings by estimated average hours worked per week.
- b/ Compiled by National Industrial Conference Board. See "Wages in the United States, 1914-1930 and 1931"; Supplement to F.I.C.B., Service Letters, April, 1933.

It will be observed that weekly wages in the cigar industry throughout the period were far below those paid in the other industries.

Hourly earnings, also, showed a decline from 1921 to 1931; the decline, however, was not as consistent as in the case of weekly wages. Hourly earnings were far below those paid in the 24 other principal manufacturing industries cited above.

(c) Wage Rates and Earnings by Occupation, Sex and Grade of Product.

The special survey made by the Census in 1933 at the request of the National Recovery Administration showed 11,546 wage earners compensated on an hourly basis and 40,727 compensated on a piecework basis.

This piecework group consisted primarily of cigar malters. Some 1,706 of these wage earners worked on a combination of hand and machine work, but there were 12,001 cigar makers. Some 1,706 of these wage earners worked on a combination of hand and machine work, but there were 12,001 cigar makers engaged entirely in machine production and 25,940 in hand production. Data on these workers are presented in the following table.

#### TABLE MIII

Average Maximum and Minimum Rates of Earnings of Cigar Makers on Piece Work Basis
July 1, 1933

	J.,	-		•	
			LEH	•	
Grade of	Cigars and	Rate p	er 1000	Average Earr	ings Per Teek
Kind of i	factories	High	Lov	High	Tota
Class A	Hand	7.83	7.31	14.13	11.86
Class B	Hand	12.38	12.02	16.78	15.26
Class C	Hand	18.08	14.92	19.66	16.92
Class D	Hand	26.68	24.01	22.11	20.71
Class E	Hand	44.83	33.06	25.58	21.89

Table XIII (Cont'd)

		WOLEE				
Grade of Cigars and	Rete p	er 1000	Ave	rage Ear	nings Per I	'eelr
Kind of Factories	High	Lott		High	Lov	
Class A			• =			
Máchine.	•85	.72		13.62	10.71	
Hand	5.73	4.83	17.00	11.60	8.90	
Class B						
Machine	.63	.63		10.89	9.75	
Hand	9.12	8.36		13.57	11.11	
Class C						
Hachine	1.54	1.02		14.76	13.77	
Hand.	14.70	11.20		15.34	12.34	
Class D						
Hanê.	24.04	19.94		18.07	15.22	
Class E		•				
Hanā	39.22	31.98		24.64	18.54	

Source: Compiled from special survey made by Census of Manufactures in 1933 at request of the National Recovery Administration. Tational Recovery Administration files: Study Materials of Tobacco Study Unit, Labor.

Information on male machine workers has not been given since only 23 were covered by the survey. There were 8,422 male hand workers, 18,518 female hand workers and 11,978 female machine workers.

The inconsequential amount of production of Classes "D", "D" and "E" cigars has already been mentioned, the combined output in these classes forming less than 2 percent of all production. The figures on Class "A" production, forming about 86 percent of the total in 1933, are the most significant. Class "C", with 12 percent of all production in 1933, is to be considered.

Keeping in mind the predominance of Class "A" production, it is evident that, in general, the average earnings per week for machine workers were higher than those for hand workers. The average earnings of male workers exceeded those of females. Workers were better compensated according to the quality of the cigars, but here again the small amount of production of higher priced cigars must be kept in mind.

How relatively low the earnings of these cigar makers are may be seen by comparing them with those of wage earners in manufacturing industries in general. According to the Bureau of Labor Statistics, the per capita weekly earnings in 89 manufacturing industries, including cigars, during the month of June 1933, a date comparable to those above, were \$17.99. (\*)

<sup>(\*)</sup> U. S. Bureau of Labor Statistics, "Trend of E mployment", June 1933, pp. 7-8.

Comparison will show that average weekly earnings in all important manufacturing industries as a group were higher than the average <u>maximum</u> weekly earnings of cigar makers. Earnings of other employee in the cigar industry as developed in the special Census survey of 1933 are given in the following table.

#### TABLE XIV

FULBER OF WAGE EARPERS, AVERAGE MAXIMUM AND MIFHUM RATES OF PAY AND AVERAGE HOURS WORKED PER WEEK OF TIME WORK BASIS, IN THE UNITED STATES, JULY 1935

Occu- pation	Numb <u>Wage</u> Men	er of. <u>Earners</u> Women	Men	cent Cent	Wome	<del></del>	Average Hours per Jeek
Packers							
Machine	60	152	41.5	37	32	28	41.6
Hand	466	1,979	47	41	32	27:	40.0
Strippers				•			
Machine	12	3,036	28	27	27.5	24	37.5
Hand	107	2,350	33	51.5	25.5		36.0
Selectors	95	356	57	49	32	28	42.5
Miscellaneous	3						
Machine	120	5 <b>7</b> 4	47	29	. 29	24	45.0
Hand	1,217	1,022	49.5	34	30.5	24	42.5
Total time workers	2,077	9,469	and pag	Seed game	and are	aviena *	39.4

Source: Compiled from special survey made by Census of Manufactures in 1933 at the request of the National Recovery Administration.
National Recovery Administration files: Study Materials of Tobacco Study Unit, Labors.

The same differential as between the sexes is apparent here. The difference in vage rates between hand and machine workers is not so consistent, but it is probable that earnings for the latter group exceed those for the former since machine workers average 2 to 3 hours per week more employment.

The following table, compiled from figures in the report of Rossmore, Robbins and Company (for description see this section, part 1-c), illustrates the same trend toward better pay in machine production, as was apparent from the Census study.

TABLE KV

# AVERAGE WAGE PER HOUR AND PER WEEK FOR VARIOUS TYPES OF EMPLOYEES AND PERIODS INDICATED

( <u>cents</u> )	week (dollars)
25.6	8.79
19.9	7.51
31.1	11.83
34.1	12.88
27.2	11.34
43.5	13.24
	25.6 19.9 31.1 34.1 27.2 18.4 35.5

Source: Report of Rossmore, Robbins and Co., Inc., November 3, 1933, in ræstablishment of a Code of Fair Competition (see text above).

The exceptionally low wage rates in this industry may in part be traced to the constantly declining demand for cigars. While production in other manufacturing industries from 1920 onward was increasing, cigar production dropped 40 percent. Faced by loss of markets, competition between manufacturers became intense, and repeated cuts were made in wage rates. Coupled with decreasing hours of employment, these cuts seriously impaired the average cigar worker's earnings.

The substitution of women at lower wage rates for men has been a common phenomenon in manufacturing industries wherever machinery requiring little muscular exertion has been devised. Employment of women exerts a constantly depressing effect on wage rates.

# (d) Earnings by States

The following table gives data developed by the special Census survey of 1933 for wage-rates by sex and type of production by states.

TABLE XVI

AVERAGE MANHUM AND MINHOUN WEEKLY EARNINGS OF COLGAR WORKERS OF PIECE WORK BASIS IN SPECIFIED STATES, JULY 1, 1933

MEH

	Number of Male Makers of All Cigars	,	e Earnings Hand-made C (Dollars A	igars	r C
•	•	Tow	<u>High</u>	Low	<u> High</u>
California	162	i1.28 `	13.19	15.31	17.68
Colorado	13	12.67	12.67	<u>e/</u>	<u>a</u> /
Connecticut	335	i6.02	18.27	19.04	21.58
Florida	2,958	9.63	12.07	11.87	15.16
Georgia	5	5.08	9.25		
Illinois	247	11.80	15.63	19.91	20.92
Indiana	43	13.81	14.39	22.50	26.40
Iowa	42	11.50	14.00	16.88	18.88
Louisiana	53	í1.63 <i>í</i>	13.50	13.25	16.29
Maine	42	15.33	17.52	14.59	19.74
Maryland	36	8 <b>.7</b> 3	10.47	14.79	18.95
Massachusetts	169	15.94	16.64	20.52	21.96
Michigan	33	15.61	16.07	21.28	21.85
Minnesota	41	14.21	16.97	19.29	26.73
Missouri	61	13.29	14.45	14.25	23.47
New Jersey	42	13.30	18.41	17.81	20.45
New York	1,071	14.13	16.53	17.40	21.49
Ohio	245	9.47	11.33	16.93	19.09
Pennsylvania	2,333	7.79	11.36	11.57	13.56
West Virginia	197	14.93	15.04	•••	
Wisconsin	164	15.22	16.19	20.04	20.76
Other States	130	13.30	-16.16	17.91	21.79
United States	8,422	11.86	14.13	16:92	19.66

# TABLE XVI (Continued)

701 EF

:	Number Female To		-		ge Earn ass A	ings Pe	er Week Cl	(Dollar	<u>cs</u> )
	of All	<u>1.3</u>	achine	Han		<u>liach:</u>		Hand	1
	Cigars								
		Low	<u>High</u>	<u>Lot</u>	<u>High</u>	Tom	<u>High</u>	Fom	<u> High</u>
California	361	10.00	10.00	10.60	12.37	_	_	15.86	16.18
Florida	2,360	9.97	12.57	8.67	11.19	<u>a</u> /	<u>a</u> /	11.04	13.78
Georgia	119	-	-	5.45	7.85			<u>a</u> /	<u>a</u> /
Illinois	60	12.00	12.00	11.25	12.17	-	-	18.13	21.46
Indiana	520	10.50	11.50	9.47	9.83	-	-	10.02	14.43
Iowa	20	22.00	28.00	9.76	14.42	-	-	17.00	17.00
Louisiana	582	10.99	12.60	8.08	9.29	<u>a</u> /	<u>a</u> /	12.61	15.49
Maryland	198		<b>→</b>	11.37	12.10	_	<b>→</b>	12.50	18.50
Massachusett	s 20	15.02	16.60	10.53	10.87	13.73	14.78	14.03	15.28
Michigan	. 1,703	10.08	14.32	9.79	13.10	-	-	11.93	15.38
Minnesota	34	-	- '	10.50	11.67	-	-	<u>a/</u>	<u>a/</u>
Missouri	. 267		-	7.80	10.07	-	-	<u>a</u> /	<u>a</u> /
New Jersey	- 3,049	10.70	14.81	9.79	11.69	13.20	16.42	10.47	14.02
New York	1,023	12.53	15.49	12.80	15.82	16.49	16.56	13.30	17.19
Ohio	999	9.03	10.77	7.60	9.67	11.90	11.90	13.82	15.31
Pennsylvania	. 5,944	9.64	13.67	7.50	11.23	13.19	13.70	11.43	15.37
Wisconsin	. 68		-	16.09	16.09	-	-	19.06	19.83
Other States	1,191	11.93	13.27	10.46	11.40	14.00	14.66	10.50	11.90
United State	s 18,518	10.71	13.62	8.90	11.60	13.77	14.76	12.34	15.34

included in "Other States" to avoid disclosing the data for an individual establishment.

Source: Compiled from special survey made by Census of Manufactures in 1933 at the request of the National Recovery Administration.

National Recovery Administration files: Study Materials of Tobacco Study Unit, Labor.

It will be observed from the above table that low as wage payments seem for the country as a whole, they were even lower for some of the principal cigar producing states. Attention is directed to Florida and Pennsylvania in particular.

#### 4. Mechanization

As mentioned before in this study, a machine that would satisfactorily perform the cigar making operation and deliver a finished cigar comparable to the hand made product was patented in 1917. This machine has practically revolutionized the cigar industry. Its effects on employment, on costs of production, and on the number of manufacturing concerns in the industry have been profound.

The Bureau of Labor Statistics in 1931 made a study of the effect of mechanization on the industry. (\*) The Bureau obtained from the manufacturers of the machines estimates as to the number in use from 1917 to 1931. It was estimated that each machine would produce 750,000 cigars per year using an average of 4-1/2 employees per machine. In combination with production data from the Bureau of Internal Revenue and employment data from the Census of Manufactures, it was possible to estimate machine production, number of machine workers, and the number of hand workers displaced. The following quoted letter furnished by the Bureau of Labor Statistics more fully explains the methodology.

U. S. DEPARTMENT OF LABOR BUREAU OF LABOR STATISTICS Washington

> Wheeling, W. Va., Jan. 25, 1956.

Commissioner of Labor Statistics U. S. Dept. of Labor Washington, D. C.

Dear Sir:

I have your letter of Jan. 23rd relative to a request by Mr. Mills of the M.R.A. for information in connection with Table 1 of my cigar article contained in the December 1931 Monthly Labor Review.

The following procedure was used in arriving at the estimates as shown in this table.

- 1. To begin with I first obtained from the makers of the machine (The American Foundry & Machine Co., N. Y. City, N. Y.) the number of these machines on lease and in operation, for each of the years from 1917 to 1931, inclusive.
- 2. The average estimated production per machine was arrived at after securing actual yearly production from companies operating the machines, through discussion with the manufacturers of the machines, through labor unions, and from the cigar manufacturers themselves. Due allowance was made for the seasonal character of the industry, variations in the experience of the operators, and loss of time due to breakdowns of the machine.

<sup>(\*) &</sup>quot;Technological Changes in the Cigar Industry and Their Effects on Labor", Monthly Labor Review, December, 1931, pp. 11-17.

Column II "Estimated number of machine employees required". These estimates were based on the average number of employees required per machine, and were arrived at by a comparison of the number of operators and maintenance employees required in conjunction with the number of machines operated by a company.

Column III "Estimated number of hand workers required for same production." The estimated average yearly production of the hand made cigar maker was arrived at as the result of the checking of production records and days worked where available from company records. Also the securing of reliable estimates from old time hand workers, and officials of the Cigar Makers Union. Here again it was necessary to make due allowances for seasonal unemployment, other time lost, quality of work demanded, and variations in types of cigars produced.

I might add that this study was made in 1931 at the request of Mr. Ornburn, President of the Cigar Makers Union.

I trust that this will give you the desired information.

Very truly yours,

(signed) James P. Corker

The Bureau of Labor Statistics found 3,883 machines in use in 1931. Poor's Industry Service estimated 4,600 in use in 1933. (\*) In the tables following, data are given from the Bureau of Labor Statistics study, brought through the year 1933 by the application of similar methods to the estimate of 4,600 machines in use during that year. For reasons which will be discussed in detail later, attention should be given principally to the trends apparent in these tables rather than to the magnitude of the effects shown.

# TABLE XVII DISPLACEMENT OF TORKERS SINCE 1919 THROUGH MECHANIZATION AND THROUGH OTHER CAUSES

Year	a/ Total Wage Earners	b/ Machine Workers	<u>c</u> / Hand Workers	d/ Nage Earners Displaced by Machines	e/ Total Wage Zarners plus Employees Displaced	f/ Wage Zarners Displaced Through Other Causes Since 1919
1919	114,300	1,100	113,200	1,300	115,600	
1921	119,000	2,400	109,500	2,900	114,800	300
1923	103,800	3,800	105,000	4,600	113,400	2,200
1925	103,000	5,700	97,300	7,000	110,000	5,600
1927	94,600	10,900	83,700	13,400	108,000	7,600
1929	84,200	13,700	70,500	16,800	101,000	14,600
1931	68,200	17,500	50,700	21,400	89,600	26,000
1933	54,600	20,700	33,858	25,300	79,900	35,700

<sup>(\*)</sup> Poor's Industry Service, Tobacco Industry, 1933.

- of Manufactures.
- b/ From estimated number of machines in operation. See text above.
- c/ Total wage earners minus machine workers.
- Obtained by deducting the number of machine workers from the number of hand workers estimated to have been required to produce the same number of machine made cigars.
- e/ Total wage earners plus workers estimated to have been displaced by machines.
- f/ Cumulative differences from preceding column.

Source: 1919 to 1931 -- Monthly Labor Review, December 1931, p. 13.

1935 -- calculated by analogous methods from estimate of Poor's Industry Service, 1933, Tobacco Industry, of 4,600 cigar machines in operation in 1933.

From the above table, it is evident that the trend toward mechanization with consequent displacement of hand workers has been persistent since introduction of the machine.

It is of interest to note that displacement due to causes other than mechanization has apparently been the more potent factor in creating unemployment. Two principal causes of this displacement suggest themselves: decrease in volume of production, and increase in efficiency of manufacture other than that due to introduction of cigar machines. The following table compares the drop in employment noted above with the drop in propares the drop in employment agreement of the two variables would seen to indicate decrease in volume of production as the more important factor in displacement.

# TABLE XVIII

DECREASE IN THEORETICAL NUMBER OF HARD EMPLOYEES NECESSARY TO PRODUCE ALL CIGARS, COLPARED TO DECREASE IN PRODUCTION SINCE 1919

Year	Per Cent Decrease in Total Annual Production since 1919 a/	Percent Decrease since 1919 in Theoretical Number of Hand Employees Necessary to Produce All Cigars b/
1921 1923 1925 1927	95.1 98.3 91.4 92.2	99.3 98.1 95.2 93.4 87.4
1929 1931 1933	92.2 75.6 60.8	77.5 69.1

- a/ Computed from Annual Reports of Commissioner of Internal Revenue.
- b/ From preceding table.

The following table compares total production from 1919 to 1953 with estimated machine production as adduced from the Bureau of Labor Statistics survey. The same trend toward increasing machine production is evident.

TABLE KIX

# ESTIMATED MACHINE AND HAND MADE CIGAR PRODUCTION 1919 - 1933

Year ————	Total Number of Large Cigars Produced (millions) <u>a</u> /	Estimated Nachine Production (millions) <u>b</u> /	Estimated  Mand Pro- duction (millions)c/	Per Cent Machine Made to Total Production
1010	2 070	100	2 000	0.0
1919	7 T	182	6,890	2.6
1921	6,726	401	6 <b>,</b> 325	6.0
1923	6,950	, 632	6,318	9.1
1925	6,463	957	5,506	14.8
1927	6,519	1,825	4,694	28.0
1929	6,519	2,291	4,226	35.1
1931	5,348	2,913	2,435	54.5
1933	4,300	3,450	850	80.2

- a/ Annual Report of Commissioner of Internal Revenue.
- b/ 1919 to 1931 -- ilonthly Labor Review, December 1931, p. 13. 1933 -- calculated by analogous methods from estimate of Poor's Industry Service, Tobacco Industry, 1933, of 4,600 cigar machines in operation that year.
- c/ Total production minus estimated machine production.

It has been previously stated in this report that the special survey of the Census of Manufactures in 1933 disclosed only 12,001 machine piece work employees in the industry. The above study would seem to show 17,500 in 1931 and 20,700 in 1933. The Bureau of Labor Statistics estimates for machine productivity (750,000 cigars per machine per year) and hand cigar maker productivity (75,000 cigars per worker per year) were apparently carefully chosen. It is recognized that the Bureau of Labor Statistics estimates were based on an average of 4-1/2 employees per machine, while the Census figures would probably cover only the 4 machine operators, but this factor alone is insufficient to account for the discrepancy. The explanation would appear to lie with the estimates as to number of machines in operation.

Statements were made by machine cigar manufacturers, in connection with the promulgation of the Cigar Manufacturing Industry Code, that many machines were idle or were not operated to capacity. This fact would explain the difference between the calculated number of machine employees and the number disclosed by the Census.

The 12,001 machine piece work employees shown by the Gensus survey would indicate 3,000 machines in operation (4 operators per machine). Taking the Bureau of Labor Statistics estimate of 750,000 cigars per machine per year, these 3,000 machines should have produced approximately 2,250 million cigars in 1935.

Total production in 1933 as reported by the Bureau of Internal Revenue was 4,300 million cigars. Subtraction indicates that 2,050 million cigars were hand made in 1933.

A check on the validity of the above figures is afforded by dividing the estimated 2,050 million production of hand made cigars by the Bureau of Labor Statistics estimate of 75,000 cigars per year as the productivity of the average cigar maker. This would tend to show 27,000 hand workers employed in 1933, a figure in excellent agreement with the 26,940 reported by the Census.

Accepting 2,250 million cigars as the machine made production in 1933, 52.3 percent of all cigars were made on machines during that year.

Comparison of the Poor's Industry Service estimate of 4,600 machines installed in 1933 with the indicated number of 3,000 in operation, would seem to show that the machine branch of the industry was operating at about 65 percent capacity. This figure is in agreement with the estimate of Rossmore, Robbins and Co. in their report of Hovember 3, 1933 (see part 1-c of this section) that the machine manufacturers covered by their survey were operating at 70 percent capacity.

It should be pointed out that these figures do not invalidate the trends shown in Tables XVII, XVIII, and XIX, but rather indicate that the magnitude of the effects shown was inflated. Thus total displacement of employees by machines would be less, and that by other causes (e.g. decline in volume of production) would be more than given in Table XVII. Total machine production and percent of machine production to total would be less than shown in Table XIX.

Cigar banding and wrapping machines have recently been introduced and placed in operation. It is difficult to measure the displacement of labor by these machines because:

- 1. Cellophaning of cigars is a comparatively new operation and is not done by hand.
- 2. Placing cigars in the box is done by the operator of the machine and is really a division of labor from packing by hand.

Generally speaking, one operator of this combined machine will wrap, band, and pack three times the number of cigars formerly banded by the hand operator. (\*)

<sup>\*)</sup> Monthly Labor Review, December 1931, pp. 14-15.

The displacement of labor by the wrapping and banding machine is not included in the above treatment of the cigar making machine.

The question arises as to what may be expected of mechanization in the future?

A survey of the costs of production of five cent cigars was made in 1933 by the Census of Manufactures at the request of the National Recovery Administration. Eleven manufacturers of machine made, combination hand and machine made, and hand made cigars were covered. These eleven manufacturers produced about 24.4 percent of all cigars made in 1933. The results of this survey are given in Table 1 of Appendix V of this report.

Inspection of this table discloses the startling fact that although tobacco costing \$14.80 per 1,000 cigars was used for the machine- made product and tobacco costing only \$11.52 per 1,000 cigars was used for the hand-made product, the total cost per 1,000 of the machine-made product was \$25.68 as compared to \$26.66 for the hand-made product. This advantage in both price and quality in favor of the machine-made product would seem to provide sufficient incentive for future mechanization.

How far could mechanization proceed? At present only Classes "D" and "E" cigars are exclusively hand-made, and these groups comprise less than one percent of the total annual production. There would seem to be nothing to prevent 99 percent machine made production.

The effect such a step would have is obvious. About 12,000 machine workers would be required to displace the remaining 26,900 hand cigar makers. Most of these displaced workers, particularly those in advanced age groups, would probably not prove adaptable as machine workers. Hale cigar makers would probably be nearly completely eliminated from the industry.

On the other side of the ledger, it is to be stated that the consumer would probably benefit to the extent of a better cigar at a lower price, and that the required new machine workers would probably earn more per individual than the displaced hand workers. However, these are small considerations in the face of the distress which would probably confront 14,000 or more displaced wage earners.

Mechanization in terms of its effects on production is discussed in Section D, part 3, of this chapter.

# 5. Effect of the Code on Labor

The Code of Fair Competition for the Cigar Manufacturing Industry, approved by the President June 19, 1934, provided that hours for all workers be limited to 40 per week, except, among others, "productive employees during two peak seasons per year,

provided that the number of weeks and the number of hours per week in each season shall be determined by the Code Authority, subject to the approval of the Administrator. (\*)

With regard to wage rates for productive employees, the Code provided:

"No productive employee engaged in the production of stogies or hand made cigars to retail at not more than two for five cents shall be paid less than twenty-seven cents ( $27\phi$ ) per hour and no machine cigar operator engaged in the production of cigars made to retail at not more than two for five cents shall be paid less than twenty-nine cents ( $29\phi$ ) per hour.

"No cigar makers in the Hand Made Industry, except as provided in Section 5, shall be paid at a rate of less than thirty cents  $(30\phi)$  per hour; excepting in the South in which no cigar maker in the Hand Made Industry shall be paid less than twenty-eight cents  $(28\phi)$  per hour; provided, however, that cigar makers engaged in the production of cigars other than Class A and B cigars shall be paid at a rate of not less than four cents  $(4\phi)$  per hour in addition to the rate established above.

"No machine operator except as provided in Section 5 shall be paid at a rate of less than thirty-four cents  $(34\phi)$  per hour excepting in the South, in which no machine cigar maker shall be paid less than thirty-two cents  $(32\phi)$  per hour." (\*\*)

Provision was made that up to 25 percent of the total number of hand workers and up to 10 percent of the total number of machine workers might be classed as "slow workers". Such employees were exempted from the minimum wage rate provisions of the Code, provided they were paid the same piece work rates as other employees of the same class. (\*\*\*)

Despite the relatively low wages established by the Code, employment conditions were much disturbed following the approval of the Code. From available information, York County, Pennsylvania, seems to have been the most unsettled. As a result of this condition the Code Authority was requested to make a survey of the situation. A report was submitted in Ausust, 1934. (\*\*\*\*) This report showed that of 2,505 cigar rollers

<sup>(\*)</sup> Article III, Section 1 of the Code of Fair Competition for the Cigar Manufacturing Industry.

<sup>(\*\*)</sup> Article IV, Sections 5, 6, and 7 of the Code of Fair Competition for the Cigar Manufacturing Industry.

<sup>(\*\*\*)</sup> Article IV, Section 9, Code of Fair Competition for the Cigar Manufacturing Industry.

<sup>(\*\*\*\*)</sup> Report of O. R. Strackbein and K. L. Cox, August, 1934 -- Mational Recovery Administration files: Cigar Manufacturing Industry, Code Authority.

employed in that area only 597 were able to earn the minimum permissible weekly wage at the piece rates in effect.

York County was probably affected to such a degree because of concentration on the cheap 2 for 5 cents cigar in that area. The entire section of the industry producing this priced cigar was similarly affected.

The Industrial Advisory Board of the NRA summarized the situation in a memorandum of October 19, 1934 as follows:

"The situation in the industry has been very unsettled for over a year. Substitutions to the P.R.A. wage scale were provided for them, but this was unsatisfactory. At the time the Cigar Code was approved, June 19, 1934, the manufacturers of 2 for 5 cent cigars in the York County district of Pennsylvania closed their factories because they could not conform with the minimum wage rates the Code provided. Some plants reopened and employed only the fastest workers, which resulted in a strike. A special exemption was granted these manufacturers as to rollers and bunch makers. A study was made of conditions; it was found that with the manufacturers paying wages below the Code they were still unable to make a profit, and some were losing money.

"The Code provides that 25 percent of the workers in the hand division may be classified as slow workers and not receive the minimum hourly rate, provided they are paid the same piece rate as other employees of the same class. A higher rate of exemption may be asked by the manufacturer and can be granted by the Administrator. In the York County district the original Order extended this exemption for 30 days, but no solution could be reached, so it was extended to November 10, 1934, making 90 days. A resolution was drawn by the Code Authority in an attempt to correct the situation. A hearing was held but no agreement was reached. The average wage paid cigar rollers is \$9.00 a week, minimum wage in the Code is \$10.80. Manufacturers are making no profit and, if a higher wage has to be paid, they cannot stay in business and make 2 for 5 cent cigars. Tobacco should be aged for 6 months but the processing tax is increasing the cost of raw materials and the base price of tobacco itself is higher and many improved machines used are decreasing employees. If the Code is enforced, over 8,000 will be thrown out of work; if it is not enforced it will have a bad effect on the wages and hours provisions of the Code.

"It is felt there is no practical solution to the problem; there has been a decrease in consumption in the past 10 years which, combined with the above mentioned features, is almost certain to eliminate the 2 for 5 cent cigar business. The order will effect a continuance of the tolerance for 90 days, and the

Section 1

Research and Planning Division of the N.R.A. shall determine what shall be done when the Ofder expires." (\*)

Because of these considerations, the labor provisions of the Code relating to bunchers and rollers in this branch of the Industry were suspended throughout the effective life of the Code.

Conditions in the cigar manufacturing industry were never stable during the Code period. There is little to indicate that the wage rates and earnings of labor in the industry were materially changed from those reported in 1933. (\*\*)

<sup>(\*)</sup> Memorandum of Industrial Advisory Board, October 19; 1934. Mational Recovery Administration file, Cigar Manufacturing Industry, Advisory Boards.

<sup>(\*\*)</sup> See Administrative Orders 467-33; 467-40; 467-46; 467-48 in Codes of Fair Competition, as approved, respectively Volumes KIX, page 619; XX, page 447; XXI, page 608; XXII, page 580.

### D MAJOR INDUSTRY PROBLEMS

# 1. Declining Volume of Production

The following table gives the total annual production of large cigars for the period 1919 to 1935. The peak production of 1920 was the culmination of a long, steady climb upwards from the time when cigars were first manufactured for sale in the United States. Production for the decade preceding 1920 average uneventfully around 7,100 million cigars per year. Production for the period 1921 to 1929 just as uneventfully varied between 6,400 and 6.900 million cigars per year.

# TABLE XX (\*)

## ANNUAL PRODUCTION OF LARGE CIGARS IN THE

#### UNITED STATES, 1919-1935

<u>Year</u>	Annual Production of Large Cigars (millions)	<u>Year</u>	Annual Production of Large Cigars (millions)
1919	7,072	1928	6,373
1920	8,097	1929	6,519
1921	6,726	1930	5,894
1922	6,722	1931	5,348
1923	6,950	1932	4,383
1924	6,598	1933	4,300
1925	6,463	1934	4,526
1926	6,499	1935	4,764
1927	6,519		

The change began in 1930. From 1929 to 1933 production dropped from 6,519 to 4,300 million cigars per year. A slight recovery was evident in 1934 and 1935. Per capita consumption figures are more significant (Table XXI)

<sup>(\*)</sup> Source: Taxpaid withdrawals of large cigars as reported by the Bureau of Internal Revenue.

# TABLE XXI (\*)

# PER CAPITA CONSUMPTION OF CIGARS, AT FIVE YEAR INTERVALS, 1880-1930.

Year	Consumption per Capita of Cigars
1880	49.9
1885	58.1
1890	67.1
1895	58 <b>.9</b>
1900	73.1
1905	80.2
1010	73.8
1915	66.4
1920	76.0
1925	56.3
1930	47.8

It is apparent that consumption per capita reached its peak in 1905. Since then, excepting a partial recovery in 1920 it has declined persistently.

Not the least important result of declining demand is its effect on competition. Each manufacturer strives desperately to get a large enough share of the shrinking market to enable him to keep his head above water. The individual producer feels that it is better for him to accept orders at cut prices than to have no orders at all. There is always the seldom-realized hope that "things will get better".

As a result, the consumer is frequently able to buy goods at a price under that which he would willingly pay. The total return to manufacturers decreases disproportionately to the decrease in demand. Labor rates are depressed. That these conditions have obtained in the cigar manufacturing industry will be developed in succeeding sections of this report.

For a comparison of production statistics of the cigar manufacturing industry to production statistics relating to the tobacco industry as a whole and to other branches of the industry for the period 1926 to 1934 inclusive, see Table I of Appendix I to this report.

#### 2. Trend Toward Lower-Priced Cigars

Of equal interest with declining production as a factor causing the cigar manufacturer trouble is the decisive trend of demand toward lower-priced cigars. In 1918, Class "A" cigars accounted for only 18 percent of total production; Class "B" production accounted for 58 percent; Class "C", for 24 percent; and Classes "D" and "E", combined, for less than one-half of one percent. From 1918 to 1925, production of all other classes increased at the expense of Class "B". However, from 1925 to

<sup>(\*)</sup> U. S. Department of Agriculture Circular No. 249, "American Tobacco Types, Uses and Markets", by Charles E. Gage, Page 63.

1935, production of all other classes has declined to the benefit of Class "A" production, until today Class "C" is the only one of the higher price groups to account for a significant proportion of total production. Classes "B", "D" and "E" combined represent less than  $2\frac{1}{2}$  percent of all production. The following table is self-explanatory.

## TABLE XXII (\*)

# PERCENT PRODUCTION OF LARGE CIGARS BY CLASSES, 1921-1935

<u>Year</u>					
	пДп	ııBıı	"C"	"D"	uEn
1921	30.2	27.8	39.2	2.7	0.1
1925	41.6	17.6	38.7	2.0	0.1
1927	48.5	11.5	37.9	2.1	0.1
1929	54.9	8.8	34.2	2.0	0.1
1931	69.7	3.2	25.5	1.5	0.1
1932	78.6	1.2	18.8	1.3	0.1
1933	84.9	0.7	13.2	1.1	0.1
1934	15.4	1.3	12.3	0.9	0.1
1935	87.5	1.4	10.2	0.8	0.1

This trend becomes important when its effect on dellar volume of sales is considered. Assuming all Class "A" cigars sold at 5 cents each, Classes "B", "C", and "D" averaged sales prices of 7,12, and 18 cents apiece respectively, and that all Class "E" cigars were sold at 20 cents apiece, it may be calculated (using data in Tables XX and XXII) that sales returns for cigars dropped about 48 percent in the period 1921 to 1935.

Perhaps equally important is the fact that profit margins on Class "A" cigars are much narrower than in the higher priced brackets. This factor must contribute to losses and general industrial uncertainty.

A second trend has become apparent since 1933. A number of manufacturers of ten-cent cigars have reduced prices to two for fifteen cents. The results are apparent in an increase in production of Class "B" cigars at the expense of Class "C" (Table XXII).

Any attempt to assign causes for this general movement of demand to Class "A" cigars must be purely speculative. Low prices for leaf tobacco and the introduction of cigar making machinery have made possible the production of a low priced cigar of higher quality. Much of the loss in demand for cigars of Class "B" and "D" grade must be attributed to this factor.

It is probable that cigarettes have had a further influence. A day's supply of cigarettes for the average smoker costs about fifteen cents. Comparison of this with the costs of cigar smoking has undcubtedly had the effect of making many a smoker "price-conscious", with a

<sup>(\*)</sup> Tax paid withdrawals of large cigars as reported by the Bureau of Internal Revenue.

consequent switch to lower priced brands of cigars.

The trend is of interest to the Government. Tax receipts from large cigars ('hough influenced by tax reductions in 1926) decreased from \$51,077,000 in 1921 to \$11,693,000 in 1935.

Reference to the different wages paid to workers producing the various grades of cigars has been made in a previous section of this chapter.(\*) It is evident that the increased relative proportion of production of Class "A" cigars must have had a depressing influence on wage levels in the industry.

The Code Authority for the Cigar Manufacturing Industry appointed a commission of two persons, one representing the Code Authority and one representing the Cigar Makers' International Union, to investigate costs of production of two for five cent cigars in York County/ Pennsylvania. The report covered eight representative factories in the district using hand labor only. (\*\*) It was shown that the cost of the tobacco used varied from \$2.50 to \$3.91 per 1,000 cigars, but a uniform labor cost of \$4.20 per 1,000 for rolling and bunching (compositely) was in effect. The Bureau of Labor Statistics estimated that the average cigar maker produces approximately 75,000 cigars per year. (\*\*\*) On the basis of a 50 work-week year and a 40-hour week, this would indicate a productivity of about 37-1/2 cigars per worker per hour. Assuming that efficiency might be increased a third in these factories by use of the team-work system, the average output would be 50 cigars per worker per hour, or 2,000 per 40-hour week. This would give the average worker in such a plant a weekly wage of \$8.40.

A further comparison is invited. The study of costs of production of five-cent cigars made by the Census of Manufactures in 1933 indicated that the average cost of the tobaccos used per 1,000 five-cent cigars ranged from \$11.52 for all-hand-made cigars to \$14.80 for the machine-made product. This should be contrasted with the \$2.50 to \$3.91 range per 1,000 cigars of the two-for-five cent cigars mentioned above.

Informed observers of the industry have declared, and the facts developed above would seem to bear them out, that as presently manufactured a cigar cannot be made profitably to retail for under five cents if the farmer is to receive a fair price for his tobacco and the cigar worker is to be paid a fair wage.

There is no evidence that the average cigar manufacturer is deliberately exploiting his labor. Many manufacturers have evinced a true interest in their workers' problems, but there seems to be inevitably in every industry the cut-rate producer who will drive competition to its limit. The average manufacturer has Hobson's choice, to conform or close his shop.

<sup>(\*)</sup> Section C, Part 3-c.

<sup>(\*\*)</sup> Report of O.R. Strackbein and K.L.Cox, August, 1934: National Recovery Administration files, Cigar Manufacturing Industry, Code Authority.

<sup>(\*\*\*)</sup>Monthly Labor Review, December, 1931.

The end of increasing Class "A" production is in sight. Much further increase could take place only with the virtual elimination of production of all higher priced cigars. A significant swing of public favor back to the better quality groups seems unlikely. The trend over the last twenty years has been too decisive to make this seem probable.

# 3. Mechanization and Concentration of Production.

The past and the probable future effects of mechanization on labor were discussed in this chapter (Section D, Part 4). It was pointed out that in 1933 about 52 percent of all cigars were machine-made, and that machinery was in place to produce at least 25 percent more. No obstacle to further mechanization is apparent; indeed, price advantages inherent in the use of machinery are such that expansion seems inevitable.

Mechanization has had as important an effect on production as it has had on labor.

The use of cigar making machinery presupposes a considerable initial investment for equipment and royalties. An adequate factory location is required. Overhead costs are high. More efficiency can be provided if machines are installed in batteries; the skilled labor necessary to run ten machines costs but little more than the skilled labor cost to run one machine. Hand manufacture, on the other hand, requires little capital; hand operations can be started in almost any place where floor space is available.

All these factors combine to make the installation of machinery possible only to the manufacturer with considerable capital at his command. The small hand manufacturer, forced to compete against superior efficiency, has seen his profits dwindle. In many cases he has been obliged to go out of business. Table XXIII illustrates this in graphic fashion.

The number of companies in operation has been cut more than half during the period 1921-1934. Of more importance is the increasing proportion of output of the larger plants.

In 1921 there were eleven factories producing more than 40,000,000 cigars each per year (Table I, this chapter). These factories represented only 15.7 percent of all production, In 1934 the number of factories of this size had increased to 28, and they produced more than 54 percent of all cigars made during that year in the United States. The relative proportion of total output for every other factory group had decreased during the period.

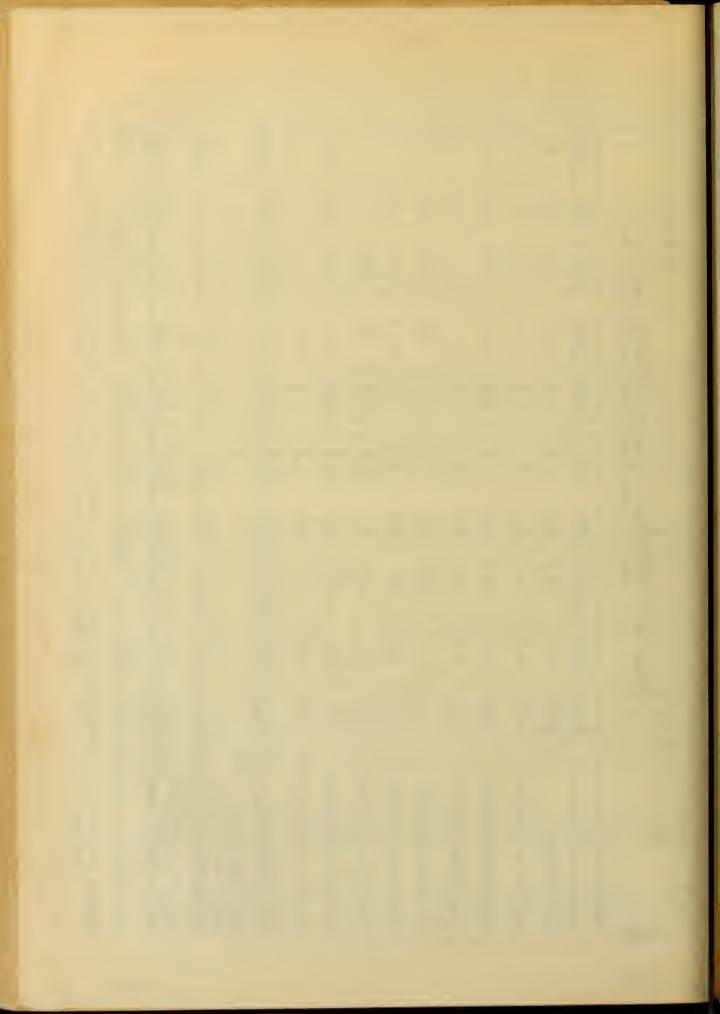
The position of the hand manufacturer is summarized in a report of the Labor Advisory Board after the final hearing on the proposed Code of Fair Competition for the cigar manufacturing industry. The Labor Board said:

"A very important factor in the situation is the ability of the machine manufacturers to force the total mechanization of cigar production whenever the cost differential inclines sufficiently in their favor. Certain hand manufacturing centers, like York County,

TABLE XXIII PERCENTAGE OF TOTAL PRODUCTION BY CIGAR MANUFACTURERS CLASSIFIED BY OUTPUT, 1921-1934

4	1									
	1921	1926	1927	1928	1929	1930	1931	1932	1933	1934
Under 500,000	13.7	0 .	7.0	6.7	5.5	5.2	5	5.7	5.6	5.9
500,000 to 1,000,000	5.3	3.0	2.6	2.4	2.0	1.8	1.6	1.9	2.0	2.1
1,000,000-2,000,000	6.8	4.3	3.7	3.1	8.8	2.8	% %	3.1	3.1	2.8
2,000,000-3,000,000	5.8	3.4	3.4	3.2	2.7	2.5	3.0	3.0	2.6	83
3,000,000-4,000,000	<b>8</b>	3.3	2.4	2.8	2.6	2.5	1.8	2.5	6.8	8 *3
4,000,000-5,000,000	4.9	3.6	8.0	8.8	2.1	1.9	2.0	2.0	2.1	1.9
5,000,000-10,000,000	18.4	15.6	13.3	<b>9.4</b>	10.0	8.4	9•9	9.5	9.6	8.7
10,000,000-20,000,000	16.0	15.5	15.0	14.7	13.4	11.4	11.8	11.5	10.9	10.8
20,000,000-40,000,000	10.0	18.4	16.6	18.1	12.3	13.7	13.1	13.0	11.0	8
Over 40,000,000	15.7	25.0	33.2	36.9	46.7	49.8	52.5	48.0	50•3	54.3
Total number of factories operating during year	14,578	10,247	9,312	8,753	8,378	7,552	7,138	6,952	6,620	6,160
Balance in operation at end of year	12,105	8,427	7,974	7,502	6,780	6,195	5,982	5,787	5,473	5,190
Mortelity	2,473	1,820	1,338	1,251	1,598	1,357	1,156	1,165	1,147	970

Source: 1921-1930, "Technological Changes in Cigar Industry", Monthly Labor Review, Department of Labor, Dacember, 1931, p. 16. 1931-1934, compiled from reports of the Bureau of Internal Revenue.



Pennsylvania, and other isolated producers with an established local trade, might survive for a time, but the threat to the hand industry is a very real one. Meanwhile, the hand industry in general is able to continue . . . (only) . . . by keeping wages at a level below any reasonable living standards." (\*)

The Code Authority of the cigar manufacturing industry submitted a list of the 50 largest cigar manufacturers (\*\*) known to that body. This Study was able to secure production statistics on 49 of these corporations, divided into two groups as follows: corporations on which comparable financial information was available and corporations on which production information alone was obtainable. A special group of four was selected as representative of the position of the largest corporations in the cigar manufacturing industry.

A group of less than 30 companies, including the four largest concerns manufactured 43.1 percent of all cigars in 1926, and 53.6 percent in 1934. The group of four companies made 2.5 percent of all cigars in 1926 and 31.0 percent in 1934. The rest of the industry dropped from 44 percent in 1926 to 32 percent in 1934.

Code authority records disclose the fact that production for all large corporations decreased 15.4 percent. <u>Production for the remainder of the industry dropped 49.4 percent during the period</u>. This is significant proof of the advantage of the large over the small producer.

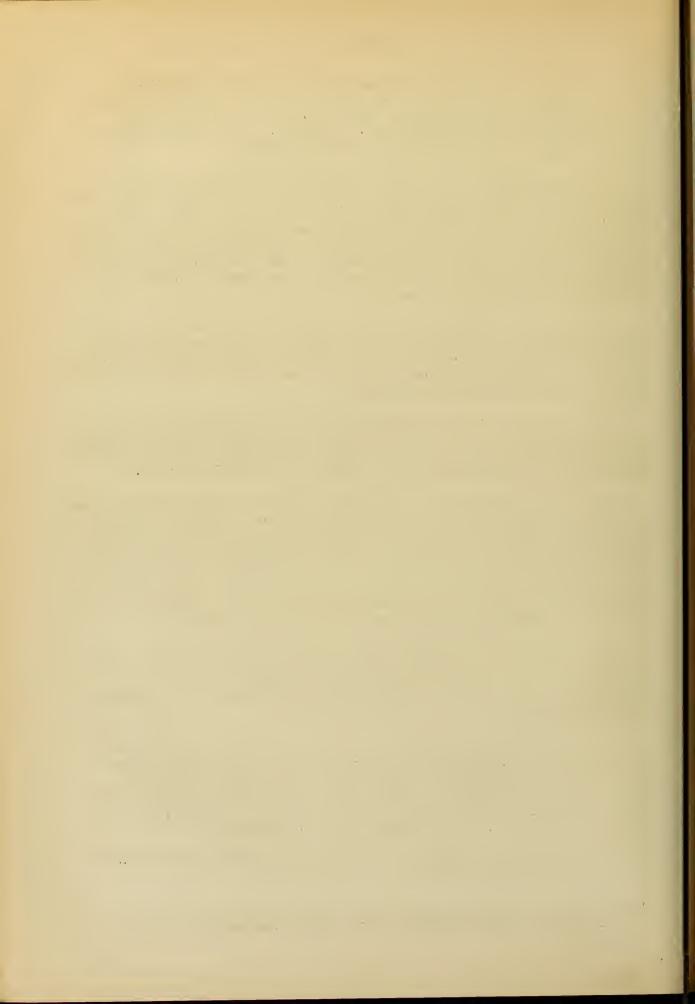
That the concentration of production in fewer, larger plants is due principally to mechanization can hardly be doubted. The old "tobacco trust" made determined efforts to capture the cigar markets from 1900 to 1910 but was never able to advance beyond 16 percent of the total (Section B of this chapter). Other efforts in other fields of tobacco manufacture where machinery was available at the time were almost entirely successful. The trend toward concentration has become predominant only since the development of satisfactory cigar making machines.

This seemingly inevitable trend toward concentration suggests a possible if unpleasant solution to many of the troubles that now beset the industry. The ultimate result of the tendency would seem to be concentration of practically all production in a few large, completely mechanized plants.

The history of manufacturing industries controlled by a few large groups shows in general these extremes; ruthless, destructive price wars, or price leadership or agreement (not necessarily collusive). The former condition tends to burn itself out and give way to the latter. The iron and steel industry and the cigarette industry are mentioned as examples demonstrating marked price-stability.

<sup>(\*)</sup> National Recovery Administration files, Code Records For Manufacturing Industry, Volume B, Part 1, p. 9.

<sup>(\*\*)</sup> National Recovery Administration files, Cigar Manufacturing Industry, Code Authority, letter of May 14, 1935.



The cigar manufacturing Industry may yet become stabilized along such life. Wor! then be more chance of the worker receiving a fair wage and the farmer a fair price for his tobacco than under the present demoralizing conditions. The manufacturer, facing declining profits and vanashing business, usually considers no one's skin but his cur.

# 4. Integration with Agriculture

The various types of leaf tobacco are not interchangeable in prodct manufacture. Cigar leaf types are not used to any appreciable extent in cigarettes and cigarette types are not bought by cigar makers. Consequently, any reduction in demand for particular types of leaf seriously affects farmers in regions predominantly producing such types of leaf.

The revenue from the sale of cigar leaf has fallen drastically. since 1919, to the detriment of many tobacco farmers. This crop represents a large portion of the income to farmers in Pennsylvania, Florida, Georgia, Wisconsin, and the Connecticut Valley.

The income of Pennsylvania filler-type cigar leaf growers reached \$10,026,000 in 1919. In 1933 this had fallen to \$1,024,000, a loss of 90 percent. (\*) The same story is repeated in Connecticut Valley production of binder and wrapper leaf. Income from the sale of binder leaf fell from \$12,632,000 in 1919 to \$1,395,000 in 1933; income from wrapper leaf dropped from \$6,090,000 in 1919 to \$3,165,000 in 1933. (\*\*) Total sales of the three classes of cigar leaf for the years 1925, 1933, and 1934 show that the decline was checked in 1933 and 1934, presumably by the Agricultural Adjustment Act. For these years production and revenue were as follows:

TABLE XXIV
PRODUCTION, PRICE AND VALUE OF FILLER, BINDER
AND WRAPPER LEAF TOBACCO PRODUCED IN THE
UNITED STATES, 1925-1934

Filler lbs. Price per lb. Total value	1925 91,751,000 10.7 \$9,809,000	1926 - 9.9	1933 32,279,000 5.4 \$1,736,000	1934 34,357,000 9.2 \$3,165,000
Binder lbs. Price per lb. Total value	95,159,000 15.3 \$14,578,000	20.2 -	37,565,000 8.6 \$3,232,000	26,328,000 12.1 \$3,194,000
Wrapper lbs. Price per lb. Total value	7,538,000 93.8 \$6,318,000	83.3	6,156,000 57.7 \$3,552,000	7,048,000 68.7 \$4,841,000

Source: Tobacco Tax Division, Bureau of Internal Revenue.

<sup>(\*)</sup> U. S. Department of Agriculture, 1935 Yearbook of Agriculture.

<sup>(\*\*)</sup> Ibid.

It is probable that a large part of the decrease in cigar leaf to-bacco prices has been occasioned by the declining volume of cigar production. Another influence has been suggested. The increasing concentration of production in the hands of a few manufacturers has brought about certain changes in methods of buying tobacco.

# (a) Tobacco Buying Methods

Three methods of selling cigar leaf now predominate. In certain districts (notably Wisconsin) farmers have formed "cooperatives" to dispose of their tobacco. In recent years, there have grown up in the Connecticut Valley regions, producer-wholesale organizations that do their own marketing of binder and shade-grown wrapper. Cigar leaf tobacco in most producing districts is sold on the farm. This process is known as "barn-buying", and is of special interest in view of the low prices paid for tobacco in recent years. (\*) As the name suggests, "barn-buying" results from the meeting of the buyer and the grower at the latter's farm.

Large manufacturing establishments, leaf tobacco houses, and independent packers send buyers or "circuit riders" to the fields. These representatives form their own judgment of the probable size and quality of the crop. Upon these factors, coupled with knowledge of the trends and character of domestic consumer demand for manufactured tobacco products, the stocks of leaf tobacco already held by dealers and manufacturers, and the state of foreign demand for leaf tobacco, are based the purchasing plans and price scales that will govern the returns to growers when their product has finally been offered for sale.

The farmer is no match for the "circuit rider" in bargaining. Green tobacco is worthless for smoking. Three years is the average curing and treating period before tobacco is ready to be rolled into cigars. The buyer has knowledge of market factors such as stocks on hand and production in other fields not available to the average grower. Moreover, the farmer has generally an inadequate knowledge of the grading of leaf tobacco. He is loath to trust his judgment against that expressed by a buyer. He is perennially in need of cash and cannot often afford to held his stocks against the possibility of a better offer.

How far concentration of production has affected the market for cigar type leaf tobacco is not known. It is certain that fewer manufacturers means fewer buyers. There is inadequate knowledge concerning the whole field of tobacco marketing. An intensive study of the whole subject here opened to discussion should be made.

<sup>(\*)</sup> For a detailed description of methods of tobacco marketing, see U. S. Department of Agriculture Circular No. 249, "American Tobacco Types, Uses and Markets", by Charles E. Gage --- pp 70-82.

### CHAPTER VI

#### DISTRIBUTION OF TOBACCO PRODUCTS

#### PART I - CHANGES IN CHANNELS

# A. THE SITUATION IN GENERAL

The distribution of tobacco products is like a spider's web in the intricacy of its operating lines. Apparently strong, its lines are readily broken and, like the spider web, apparently self-repairing as the volume of sales yearly reaches billion dollar totals.

Manufacturers through sales and advertising policies weave the web. In it, the tobacco wholesaler and the tobacco retailer are entangled, and, in their struggles for survival, they tear the distribution pattern into recurrent states of disorder and confusion. There is a problem here that the laissez faire economist has left a little worse than he found it; its solution awaits the economist who is less stoic to the consequences of predatory competition.

Since 1893, when the industrial expansion of modern times first included tobacco production, manufacture and consumption, the channels of distribution of tobacco products have undergone radical changes. Today, there is nation-wide ill-will toward the manufacturers of tobacco products among the traditional old-line tobacco wholesalers and retailers. In the last two decades, cigars, cigarettes and smoking tobacco have found their way to the consumer through a score and more of new channels. In the last fifteen years, the chain store system has spread throughout the country; there are some signs now that this development has reached maturity. Consumer-owned cooperatives buying at wholesale prices and selling at low retail prices have appeared and are now prospering. Department stores, although their relative sales volume is small, are nevertheless factors of wide-spread influence in the merchandising of tobacco. Cooperative buying through retailer-owned wholesale establishments is a significant new development. The small tobacconist's shop is no longer a neighborly social center; cigars and cigarettes are immediate conveniences at the soda fountain, the drug store, the grocery store, the roadside gas station and the humble sidewalk apple stand.

The increase of ultimate consumer outlets, explains in part the situation threatening the tobacco wholesaler and the independent tobacco retailer in a market where margins are slender. In 25 years time, cigarette consumption in the United States has increased more than a thousand per cent. In reaching that result, these changes have taken place in distribution:

(1) The tobacco wholesaler has been crowded into an unsound economic position. Traditionally, he bought in large quantities, covered wide territories and developed markets as he served thousands of small retailers through his own warehouse, his jobbers and sub-jobbers.

- (2) Manufacturers today sell direct to retail outlets of mass purchasing power, and grant these retailers equal, and in some instances greater, wholesale discounts. These sales are made to department stores; national and regional chain systems; cooperatives of various types.
- (3) In the retail tobacco trade, the tobacconist is being displaced. Intense competition and narrow profit margins have forced him to add gum, candy, razors, blades, wat ches and novelty articles to his slender inventories. He does not lack competitors who can and do sell cigarettes at cost or less whenever they wish.
- (4) Consumer-owned cooperatives now numbering thousands of units shrewdly exercise their unusual pooled buying power and are making significant inroads into the business of tobacco wholesaler and retailer.
- (5) Retail stores in food products, household articles, drugs, etc., have developed significant technique in management efficiency; cooperative buying groups own their own wholesale establishments supplying member retail units. In one such combination there are now more than 22,000 stores.
- (6) The cigarette, because of nearly universal habit, is a natural loss-leader and is now so used by grocery and drug chains, although to a smaller extent than before the MRA Codes, and by department stores, hardware stores, specialty shops and other outlets. The popularity of the cigarette has led to intense price wars in tobacco retailing and wholesaling. This subject is discussed in Part ii and Appendix 7 of this Chapter.
- (7) Price discriminations in the form of special allowances and discounts (both secret and auditable), granted to selected retail outlets by manufacturers, have added disorder and confusion to the distribution plan, and constitute a problem still engaging the attention of the Federal Trade Commission and the Congress of the United States.

The sales and the advertising policies of the manufacturers are not separable; they are, in practice, a joint factor of distribution management. The effect of the advertising practices of manufacturers (other than copy angles—which is quite another story, indeed) with special reference to the enormously greater expenditure of advertising dollars as compared with advertising expenditures for the sale of gasoline and oils, food products, drugs, cosmetics and motor cars, is presented in this Chapter in a series of interesting comparisons. A brief survey is made of the effects of tobacco products as loss—leaders. Attention is directed to the instances recently presented to the Congress and the Federal Trade Commission with respect to special advertising allowances and discounts allowed to chain store organizations.

What of the consumer in this situation? He has gained a better cigarette and a better cigar at a lower price. His convenience and

his pocket have been served as tobacco has found increasingly newer outlets. But the consumer is also a farmer who raises tobacco, a producer who markets goods, a wholeseler, a retailer, a worker depending upon wages earned in trades or industries. He has a bread and butter interest in the social wastes and economies (when present) of competition in production and distribution. Others must have the same protection that he demands.

What of the old-line tobacco wholesaler, jobber and sub-jobber -- and the retailer? They have not seen the forest for the trees. On all sides, newer and differing wholesale and retail outlets for their products have developed and prospered. They have protested, but they have not met the challenge.

They have not been alert to the social and economic significance of the management technique applied so efficiently by these newer competitions. Government and trade reports show that in retail sales, consumer cooperatives operate on an average overhead of less than 12% (\*). Chain store grocery outlets report average overhead operating expenses of a fraction as low as 14% of sales. All grocery stores selling 13.5% of tobacco sold have an average expense of 17.5% (\*\*). The average independent retail store (\*\*\*) shows operating overheads of 27% to as high as 45% for cigar stands.

Efficiency in store management -- better merchandising methods -- are the only problems involved in these handicaps that make worse the daily lot of the independent storekeeper. Something of the same condition is present in wholesaling. These are the challenges of the day that the independent wholesaler and retailer cannot longer evade.

Beyond the wholesaler's and retailer's control are, of course, manufacturers! sales and distribution policies. As manufacturers have taken over more than half of their own normal wholesale business, the independent has relaxed in enthusiasm and aggressiveness for market development. With outworn order-taking methods, he has defended himself as with a wooden sword against his competition. Manufacturers, as well as great national chain and retail-owned wholesale buying organizations, have concentrated more and more in the urban centers of densest population. But there are extensive areas of consumption not only in metropolitan districts, but other areas widely scattered in many thousands of farmside and hamlet communities that must continue, without undue penalty to the consumer, to depend upon wholesale houses. The actual effect upon all the elements in the tobacco industry of the present metropolitan concentration of distribution has not been appraised; but the tendencies therein should not longer escape exhaustive investigation.

One conclusion is clear. Manufacturer, wholesaler, retailer have been pulling apart; wrangling in recurrent antagonisms. Yet their interests in distribution are mutual. The interests there involved also concern the tobacco raiser, the wage earners of the Industry — and the general public. There is needed a common meeting ground for \*) (\*\*\*) Bulletins 83 adm 87. Operating Margins, published by Harvard Univerity, Bureau of Research 1929. See Also studies in Operating Results — 1933 — Dun & Bradstreet, Ind.

wholesalers and retailers and manufacturers to come to understand one another and to measure the trends and the consequences of their activities in distribution so that an answer in terms not only of price-and-profit economics, but of social economics, as well, may be resolved. Pressures and forces bear upon the problems from every side, but as yet no research has been employed to measure these pressures.

Wide areas of social waste -- directly concerning the responsibilities to the national welfare of grower, manufacturer, wholesaler, retailer, consumer, demand complete exploration and appraisement in scientifically organized research. A solution in terms of a sound national economy for the long pull cannot much longer be deferred.

The reasons are present in the following pages of this Chapter. On these pages have been spread the evidences of the seven distribution changes here outlined and the problems disclosed within the limited scope of this study.

# B. MANUFACTURERS! WHOLESALE BRANCHES

The large manufacturers of tobacco products, particularly cigarettes, have developed extensive marketing organizations with a consequent increase in direct selling to retailers. These establishments often perform a complete marketing function comparable to that of the tobacco wholesaler. In 1929, tobacco products distributed from these outlets amounted to more than \$784,000,000 or 46.6% of the total sales, and in 1933 more than \$719,000,000 or about 56.9% of the total sales. The decrease in total sales of tobacco products from 1929 to 1933 amounted to 25.3%, but the manufacturers establishments suffered a decline in sales of only \$65,000,000 of 8.3%. (\*)

Sales by manufacturers usually include the most desirable accounts with the best credit rating. The manufacturers' outlets did not suffer to the extent that the decline in the business of wholesalers indicated. Manufacturers actually increased the number of direct accounts at the expense of the wholesalers who could not meet the price competition.

## C. THE TOBACCO WHOLESALER

The tobacco wholesaler performs extensive services to supply tobacco products to over 750,000 (\*\*) retail outlets on a very narrow margin of profit. The widespread use of tobacco products requires the constant delivery of small amounts even to the humblest merchant with his sidewalk stand. The wholesaler services all but a few thousand of the total number of accounts which retail the bulk of all tobacco products. The small retailer is entirely dependent upon this wholesaler and his sub-jobbers for his supply of tobacco products.

- ( \*) Wholesale Distribution Census of American Business, 1933.
- ( \*\*) Census of Retail Distribution 1930 gives 1,543,000 as the number of retail outlets. It is estimated that more than half carry tobacco products.

#### D. CONDITIONS IN THE RETAIL TRADE

The retail tobacco trade has been subject to the fundamental economic changes in distribution experienced over the last two decades. The nature of the competition involves, primarily, the economic conflict between uni-product and multi-product distribution. For many years the survival of the independent retail dealer merchandising tobacco products exclusively has been doubtful. The trend of gross and net margins in tobacco chains has been downward for many years, in spite of the large increases in tobacco consumption concentrated in cigarettes.

In 1926 and 1927, aggressive competition in retail selling developed through the entrance of the chain grocery into the cigarette selling field. This was a natural development as cigarettes began to be smoked by women. The chain grocers made the appeal of price on a quantity basis to the bargain instincts of women shoppers. The tobacco chains and the independent tobacco retailers attempted to maintain a greater margin of profit and suffered a consequent loss of business to other outlets.

In view of the growing competition and the narrowness of the profit margin, cigar stores retailing only tobacco products became less profitable; they added supplementary products and increased diversification of merchandise such as razors, blades, candies, mints, clocks, watches, variety products and toilet goods. Cigar stores with fountains became sufficiently important to secure a separate classification in the Census. In a review by an important authority on the tobacco industry for the year 1930 the following statement appears:

"The method of retail distribution of cigarettes still remains one of the industry's big problems. With the demand firmly established, there remains the question as to whether a product having such a universal appeal should be sold through specialized tobacco shops. The more logical development would seem to lie in making cigarettes available to the purchaser in the most convenient and perhaps in almost every convenient shop where everyday purchases are made. This tendency is appearing more pronounced, and there is every reason to believe a wholly satisfactory and profitable distributing system will be evolved."

<sup>\*)</sup> The Tobacco Industry, Chas. D. Barney & Co., 1930, page 22.

#### E. PRICE CONDITIONS IN THE TOBACCO TRADES PRIOR TO THE CODE

#### 1. Vanishing Margins

As indicated in Chapter 1, Section E of this report, the tobacco industry emerged in January 1934 from one of the fiercest price wars in its history. The tobacco distributing trades probably suffered one of their worst years in 1933. Margins, already low, had been squeezed to the vanishing point. It was not until the manufacturers raised their list prices from \$5.50 to \$6.10 per thousand that retail prices became fairly well established.

Retailers, when appearing in Washington at NRA Code hearings urged (1) the necessity of protection for the small merchant; (2) the benefits which they urged would accrue to labor through the maintenance of stabilized prices; and (3) the assertion that price protection had been accorded to practically all other retail grades and should be granted to the tobacco trades. They petitioned the National Recovery Administration to approve Code provisions for resale price maintenance.

#### 2. Retail Tobacco Chains in 1932 and 1933

The two large retail tobacco chains felt the crushing effect of financial difficulties in 1932. Profit margins wilted in the intense competition among retail distributors. As a result, the United Cigar Stores Company of America went into receivership in August, 1932 and the Schulte Retail Stores Corporation faced an additional operating loss of more than \$2,000,000 in 1932 after a loss of \$300,000 in 1931. These tobacco chains continued to be harassed by severe price competition from the selling by other retailers of cigarettes and cigars as price leaders. United remained in bankruptcy, but the Schulte chain returned to a profitable basis of operation in 1933.

# F. PRICE REGULATIONS IN THE RETAIL TRADE

The price regulation Code provisions (\*) establishing minimum retail prices for cigarettes were made effective through Office Order 228 since the National Recovery Administration policy opposed further price fixing provisions except in cases of emergencies. The Code proponents maintained that there was a constantly impending "emergency" within the industry and pointed back to the 1933 price war when the so-called "fifteen cent" brands of cigarettes were generally retailed almost at cost and were also sold below known costs by many chains and a few department stores.

Minimum retail prices for the four popular brands and the ten cent brands were fixed by the emergency order (NRA Administrative Order No. 466-4) and extended throughout the Code period or

<sup>(\*)</sup> Administrative Order No. 466-4, July 12, 1934, National Recovery Administration.

until May 1, 1935, when a more permanent form of resale price maintenance in the form of loss limitation regulations covering cigarettes, smoking tobacco, chewing tobacco and snuff were adopted. These regulations, because of the Schechter decision, were never put into operation.

In Administrative Order No. 466-4 minimum retail prices of the most popular brands of small cigarettes were fixed at 13 cents per single pack, two packs for 25 cents and \$1.20 per carton. In the case of the ten cent brands, minimum retail prices were fixed at 10 cents per pack, two packs for 19 cents, and 95 cents per carton. These prices were fixed in conformity with the generally prevailing prices through the regular retail tobacco outlets.

The small independent, as has been indicated, pays approximately \$1.11 per carton for the popular brands. The fixed retail price of \$1.20 per carton allowed him a gross profit of 9 cents or about 8% on cost. The direct buyer receiving the ordinary trade discounts and paying \$1.076 per carton made a gross profit of 12.4 cents or about 11.5 per cent on cost. However, attention must be directed to the preferential discounts accruing to a number of these buyers.

# 1. Effects of Price Regulations

The Research and Planning Division, NRA, sought to measure the effects of the Code price regulation provisions on independent retailers, department stores and various chains through personal interviews and through questionnaires sent out in collaberation with the Consumers Bureau of the National Emergency Council. The results were summarized in a special Study (\*).

(a) Independent Retailers A detailed analysis of the results secured from questionnaires which were filled out in the presence of enumerators connected with the Consumers Bureau are included in Tables I to XII of the above mentioned report. In brief, only about 8% of the independent retailers reported sales less than the minimum prices established under the price regulations in the Code. A few only admitted selling at a loss. The average weighted price per single pack sales of popular brand cigarettes before the Code regulation period was 13.5 cents against 13.6 cents after the regulations. In two-pack sales, the corresponding figures increased from 25.9 cents to 26.2 cents. The volume sold by independents increased 1.6%. In the case of the ten cent brands practically no price changes were required but the volume of sales of this type of cigarette showed an increase of 4 per cent.

<sup>(\*)</sup> Special Report. Effects of the Cigarette Price Regulations Under the Emergency Declaration for the Wholesale and Retail Tobacco Trades, December 18, 1934. National Recovery Administration Files.

# (b) Chain Cigar Stores

The price regulation provisions of the Code generally required no price changes in chain tobacco stores except an increase of one cent on cortons which had been retailing at \$1.19. Taking into consideration the normal sales decrease for chain cigar sales for the month during which the data were secured, the chain cigar stores experienced an increase of 6.1 per cent in sales.

The chain cigar stores probably secured the greatest benefits from price regulations. They were relieved of the competition of lower prices from other outlets. Their gross profit on cigarettes was about 145 on known replacement cost without consideration of any special discounts, free deals, or allowances which they may have received from manufacturers of cigarettes. (\*)

### (c) Chain Drug Stores

Reports from chain drug stores indicated that prices were relatively stabilized at the prices prevailing in chain tobacco stores, but that this type of store was inclined to lower prices to meet competition. They were in a better position to do so. Prices in some cases were as low as ten cents per pack for the standard brands. Some chains favored the use of cigarettes as "loss leaders". However, from all the data secured, the general opinion favored price regulations. This appeared natural since tobacco products represented 14 per cent of their total sales in 19291 Stabilization insured them a gross profit of about 14 per cent on replacement cost, without taking into consideration any special discounts, free deals, or allowances.

# (d) Chain Grocery Stores

Group I - Returns showing no significant price changes were received from 14 grocery chains, representing approximately 9,800 outlets in 40 states.

A comparison of the average volume of the 1934 August-September sales to the May-June sales of 1934 showed a decrease of  $8\frac{1}{2}\%$  in volume of the popular brand cigarettes. However, a seasonal study of chain grocery stores showed a  $14\frac{1}{2}$  per cent decrease during the same period. It may reasonably be stated that cigarette sales increased about 6 per cent in this group which naturally favored price regulations since profits probably equalled those made

<sup>(\*)</sup> Chain Stores, Allowances, etc., Tobacco Trade Federal Trade Commission to Senate Resolution No. 224, October 26, 1933.

by the aforementioned drug chains.

Group II - A group of 18,000 grocery outlets which were forced to make slight increases in their prices showed a volume decrease of 18.8 per cent by comparison of May-June 1934 sales to August 1934 sales. However, 11 per cent of this decrease may be attributed to seasonal decrease which probably resulted in a net decrease of 7.8 per cent in sales for the period reported. This group was noncommittal in respect to price regulations.

#### (e) Department Stores

Reports received from ten of the largest department stores in the New York City metropolitan area showed that six department stores confined the sales of cigarettes to their restaurant departments. Cigarettes were carried merely as a convenience item and were sold at prices equal to or above the minimum established by the Code price regulations. However, four department stores which had sold cigarettes below prices prevailing in the regular tobacco outlets showed large revenue decreases. Examination of Table XVI of the Research and Planning report indicates that one department store showed a volume decrease in excess of 75 per cent within two months after the Code minimum price regulations became effective.

#### 2. Price Spread Between Popular Brands and Ten Cent Brands

The price spread between the popular brands and the ten cent brands under the minimum price Code regulations resulted in a differential of three cents in the case of single pack sales (\$.13 v..\$.10); six cents in sales of two packs (\$.25 v. \$.19) and twenty-five cents in carton sales (\$1.20 v. \$.95).

Internal Revenue figures indicated that the average taxpaid withdrawals of the companies making ten cent brands for April, May, and June, 1934 equalled 15.3% of total withdrawals for small cigarettes and that the August, September, and October, 1934 average showed an increase to 18.4%. While these figures are not conclusive, there is no doubt that the price differentials between these types of cigarettes during the period of Code regulation tended to improve the position of the cheaper ten cent brands.

# 3. The Cigar Merchandising Plan

The Cigar Merchandising Plan was included as Schedule 1 in the Codes for the Cigar Manufacturing Industry, the Wholesale Tobacco Trade, and the Retail Tobacco Trade. The provisions were stayed when the codes were approved but the stays were lifted by Administrative Orders on November 11, 1934.

The Cigar Merchandising Plan was an attempt by the industry to stop declining prices in the face of declining consumption and improved technology in production. The distributing trades had been recipients of larger and larger discounts by the manufacturers in attempts to increase sales. As a result, sales were made below the intended resale prices which were stipulated on cigars due to Internal Revenue Bureau requirements for tax purposes.

The Cigar Merchandising Plan was designed to correct these difficulties by an elaborate system of price fixing arrangements. The manufacturers filed the intended retail prices and discounts allowed with a price filing agency known as the National Tobacco Council, Inc. The wholesaler also filed his discounts. The schedules of maximum discounts were complicated due to attempts to distinguish between various types of distributors such as jobbers, service jobbers, drop shipment purchasers, and chain store accounts.

The retailer was forced to sell these cigars at the intended retail price set by the manufacturer subject, of course, to specified discounts for quantity purchases.

### (a) Operation of the Plan

When consideration is given to the large variety of cigars, it is easily recognized that difficulties arose in connection with the technical operations of the plan and with its enforcement. Retail prices increased generally and a sharp decline in consumption of cigars selling for ten cents and upwards was immediately experienced.

Compliance was openly flouted. When the NRA codes became inoperative a tentative plan of revision was under consideration.

# G. RELATIVE STABILITY OF RETAIL PRICES

While department stores were the most serious price cutters, this competition was often magnified through the skillful direction of publicity to obtain the full benefits of the "loss leader" practice. No other consistent "loss-leader" outlets were reported, although a few large chains reported that "in isolated instances" cigarettes were sold at losses.

It must be remembered that most of the chain outlets had secured a sufficient volume of the retail cigarette trade to make it logical to convert this item to the profit side of the ledger. While in some instances prices were slightly below these established under the Code, attention must be directed to the varying costs of cigarettes for different classes of retailers.

#### H. PRICE REGULATIONS IN WHOLESALE TOBACCO TRADE

Cigarette price regulations on the four popular brands and the ten cent brands were established by an emergency order under Office Memorandum No. 228 within a few days after the Code was approved and extended throughout the life of the Code.

Minimum resale prices were established by markups on the net price after deduction of the usual discounts received from the manufacturers. The wholesale markup of 3.1% on the manufacturer's net price of \$5.38 per thousand for the popular brands established a price of \$5.55 per thousand in sales to retailers which was the generally prevailing sales price charged by accredited jobbers.

In the case of the ten cent brands, the corresponding prices were \$4.19 per thousand and \$4.32 per thousand. This 3.1% wholesale markup was divided in cases where both jobbers and subjobbers were involved, allowing the jobber 2.15 and the subjobber 13.

#### 1. Effects on the Sub-jobber

The industry continually questioned the right of the subjobber to recognition within the trade. However, since the subjobber's only market for the purchase of cigarettes was the jobber, it must be concluded that a sufficient number of jobbers must have used this means of distribution to justify the subjobber's economic existence.

Complaints alleging injustice in allowing the sub-jobber only 1% of the wholesale markup caused the National Recovery Administration to make two adjustments in the partition of the wholesale markup, ultimately allowing the sub-jobber 2.1% and the jobber 1% which more nearly conformed with the former practice of the trade.

The results of the cigarette price regulations caused considerable hardships to the sub-jobbers during practically the entire life of the Code. The final adjustments in his favor was made only a month before the Schecter decision.

#### 2. Compliance with Wholesale Price Regulations

Considerable difficulty was experienced with compliance with the cigarette price regulation provisions in the Wholesale Tobacco Trade due to the existence of so-called "cash and carry" jobbers who catered to the sub-jobber trade and to retailers. In some cases large retailers were reclassified as sub-jobbers in an effort to circumvent the prices fixed for sales to the Retail Trade. (\*)

<sup>(\*)</sup> Transcript of Hearing, Wholesale Tobacco Code. March 8, 1935. National Recovery Administration Files.

#### I. SOLUTION OF CODE PROBLEMS

#### 1 - Possibility of Consolidation

The Codes for the Wholesale and Retail Tobacco Trades presented no problems that could not have been solved by Administrative order had the National Recovery Administration continued to function. Shortly before the Schechter decision, a plan was underway to create four master codes for all distribution functions, consolidating and simplifying the controls for all wholesale and retail trades. Under this plan, uniform labor and trade practice provisions for wholesale and retail tobacco would probably have solved all problems.

#### 2 - Attempt to secure Voluntary Agreements

Under the voluntary code program attempted by the revised NRA in June 1935, the Wholesale Tobacco Trade applied for the first voluntary agreement. The Federal Trade Commission approved a number of fair trade practice provisions. The NRA could not come to agreement on labor provisions; and the effort was abandoned.

#### J - LABOR IN TOBACCO DISTRIBUTION

#### 1. Hours and Wages in the Retail Tobacco Trade.

The labor provisions in the Code for the Retail Tobacco Trade were more favorable than in many other retail trades, including the general code for the retail trade. With relation to hours of employment, the Code for Retail Tobacco Trade was based largely upon store hours of the Retail Code (\*), classified according to groups A, B, and C of selected store hours under the Retail Code. The employer could select either the 40, the 44, or the 48-hour week, thus provided for his establishment, remaining open up to 56 hours, 63 hours, and over 63 hours per week, respectively. The only deviation from these hours of employment found in the Code for the Retail Tobacco Trade was a further classification designated as group D, whereunder retail tobacco establishments remaining open 84 hours or more per week had to provide a maximum work week of 56 hours per employee. (\*\*).

With respect to minimum wages, the Retail Tobacco Trade exceeded the general Code for the Retail Trade by \$1.50 per week in each classification based on comparable store hours and population differentials. These higher minimum wages take on additional significance when it is remembered that keen competition exists within the drug trade which was subject to the lower wage provision of the general Retail Trade Code.

Furthermore, the general labor provisions applied only to retail tobacco establishments in towns and cities of 2500 and more population and were not applicable to thousands of other retail outlets whose principal trade was other than tobacco products.

During the period of the Retail Code's formulation, it was estimated that a 10% increase in payrolls of retail tobacco establishments would result. To what extent the increase was realized is largely conjectural.

Compliance with the hour and wages provisions of the Retail Tobacco Code caused very little difficulty. The report of the NRA Compliance Division on file in the Deputy Administrator's File indicates that only fourteen complaints were on file as of March 30, 1935.

# 2. Hours and Wages in the Wholesale Tobacco Trade.

Labor in the wholesale tobacco business, as in all wholesale trades, is generally not a direct factor in competition. The labor supply is not limited nor hard to replace and its services are only indirectly related to the product offered for sale. The relationship between wages and prices in the

<sup>(\*)</sup> Code of Fair Competition No. 60, Volume II, p. 32, Articles V and VI.

<sup>(\*\*)</sup> Retail Tobacco Trade, Code #466, Articles II, IV, p. 43

wholesaling business is not as close as in other enterprises. Labor in the wholesale tobacco trade is as unorganized as practically all other wholesale trade labor.

Computations from the Census figures indicate that the number of full-time employees in 2,106 wholesale tobacco establishments decreased from 13,177 in 1929 to 10,815 in 1932 or 18%, the number of establishments (1,988 in 1933) showing only a slight decrease. This is of significance inasmuch as the sales reported for these years by these outlets showed a decline from \$858,329,000 to \$526,405,000 or 33.7%. However, these figures do not include hundreds of other wholesale outlets distributing tobacco products. The Wholesale Trade Code Authority had a mailing list of approximately 6,000 names.

### (a) Maladjustment with Other Tholesale Trades.

There was a maladjustment in wages as compared with the Wholesale Food and Grocery Code and the Wholesale Confectioners' Code. Minimum wages in the Wholesale Food and Grocery Code were \$14.50 as compared with \$16 in the Wholesale Tobacco Trade and the maximum hours were 44 against 40 hours. The Wholesale Confectioners' Trade included provisions for minimum wages equal to the wholesale tobacco trade but the maximum hours were 36 instead of 40. These maladjustments are significant in view of the fact that the comparisons here shown, involve trades which do a considerable volume in wholesaling tobacco products.

PART II - ADVERTISING PRACTICES

#### A. ADVERTISING PRACTICES AS AFFECTING DISTRIBUTION IN TOBACCO.

#### 1. Good-Will and Competitive Warfare.

In considering the question: "Is Competition Getting Out of Hand", Roy Dickinson, an editor of Printers' Ink interviewed John Benson, the president of the American Association of Advertising Agencies (componly known as the "4A's") and quoted Mr. Benson in these words: "Unbridled and uncoordinated competition intensified under the stress of depression, may be the death of the trader. Attempts to get business at any cost and in any way have led to uneconomic and unethical practices, which unless moderated, threaten to put all business back to the dark ages in industrial strife". (\*)

<sup>(\*)</sup> Interview with John Benson, president of the 4A's in article
——Is Competition Getting Out of H and - Printers' Ink, (N.Y.),
issue of April 30, 1931.

In October 1931, writing to Printers' Ink, George 7. Hill, president of the American Tobacco Company, said: "In the case of a company such as the American Tobacco Company, manufacturing and exploiting an article of national and indeed world-wide brand value, good-will is particularly important. In appractical sense and wholly aside from the principles of accounting, the item of good will on our balance sheet is tremendously important to the management of this company and (for)....sustained effort on sales... I believe with Roger Babson that....henceforth, it will be the only thing of permanent value.....If I were asked what is the most valuable asset upon the balance sheet of the American Tobacco Company and the most conservatively valued, I would unhesitatingly point to the item of good will". (\*)

This comment by Mr. Hill was in answer to an article published in Printers! Ink the week before in which Andrew W. Howe had compared good-will values of General Motors, the American Tobacco Company and the R. J. Reynolds Company. Mr. Howe had pointed out that General Motors (as of that date) carried the item of good-will on its balance sheet at \$51,949,114.66; that other motor car makers carried their good-will as an item of \$1; that the American Tobacco Company "estimates the value of good-will which it has built up around Lucky Strike, Cremo, Bull Durham, etc., by investing 'Targe sums in advertising at \$54,099,430.47" and that the "millions of dollars that R. J. Reynolds has spent in advertising Camels, etc., have undoubtedly created a good-will that is worth many millions, yet this company places a balance sheet valuation of \$ 1 on its 'brands, trade-names, good-will. "

Good-will lapparently survives some of its peculiar byproducts. Eugene Forker, general advertising director of
the International Magazine Company, indicated this in a
speech to business and advertising groups in April of 1931.
He said: "A few weeks ago, one of the executives of our
company was talking to a prominent publisher about the power
of advertising and what it had do ne for American business.
The publisher said: 'Look at the cigarette fellows, that
they have done with advertising!.....Advertising can make
the public believe that your product is a good product and
well worth the price asked. It cannot fix this belief and
at the same time make the public believe that all similar
products are worthless." (\*\*)

<sup>\*</sup> Letter on Good-Will by George W. Hill, Printers' Ink, (N.Y.) issue of October 29, 1931.

<sup>\*\*</sup> Article - "Restrain Your Advertising or It will be Restrained for You." By: Eugene Forker, Printers' Ink (N.Y.), April 30, 1931.

This was in the year 1931. A two-year retail price war and advertising war among the cigarette manufacturers had ended by April 15, 1931. During the armistice, before the Big Three and the smaller companies resumed the artillery fire of newspaper and magazine space, H. J. Moffet, vice president of United (chain tobacco wholesalers and retailers), told Roy Dickinson, an editor of Printers' Ink, as quoted in the April 16, 1931 issue: "I believe that it will be a long time before there will be another price war of this kind. It is a much chastened industry.... Both chains lost money; many independents went broke; wholesalers lost money and so one of the silliest price wars in history comes to an end."

The struggle for dominance and twisted cleverness in advertising claims with the artillery salvos of price cuts had not been confined during this period to the tobacco companies alone. From 1926, there was evident a widespread breakdown of public confidence in advertising and in the business enterprises behind the clamoring words. "Right now we are in the era of 1931 advertising," Frank Braucher, vice president of The Crowell Publishing Company, wrote in April of that year. "If 1931 advertising means what it appears to mean, it is highly competitive, high-explosive advertising. The kind of advertising which it seems to me, if carried to its logical conclusion, will destroy the effectiveness of advertising media. It will destroy something that the advertiser needs...the believability of advertising." (\*) The conditions that for Mr. Braucher's warnings became disastrously worse in 1932 and 1933.

Four years later - in July 1935, S. Clay Williams, of the R. J. Reynolds Tobacco Company, filed a brief with the United States Senate Agriculture Committee, attacking features of the AAA Amendments Bill then before the Senate. In his bried, Mr. Williams pointed out that cigarette advertising had multiplied sales and tobacco consumption more than a thousand percent during the last 25 years, and had brought increased returns to tobacco growers, to workers in factories and to the Federal Government, besides giving the consumer more for his money than ever before.

Turning to the question of advertising, Mr. Williams made comments which derive additional significance from the heavy advertising expenditures of The Reynolds Company and other cigarette makers. He quoted Dr. Mordecai Ezekiel of the AAA, speaking on the same program with Secretary Wallace, as having told a group of processors:

"I don't think any of us feel that there is much that could be saved to the farmer or consumer by cutting down the cost of processing. I don't bebelieve, however, that the same can be said, to take one specific example, about advertising.

<sup>\*</sup> The Competitive Copy Scourge. Article by Frank Braucher, vice president of The Crowell Publishing Company, Printers' Ink, May 7, 1931.

There certainly can be a serious question whether the total amount spent for advertising in the tobacco industry is in the interest either of the producer or the consumer of tobacco products.

"Under whatever agreements you may discuss the business of producing tobacco products, it seems to me I might conceivably raise the question, are the funds that are spent for advertising necessary? Is it competitive advertising? Does one company spend because the other company spend? Could a smaller amount be spend for advertising, could a larger amount be returned to the producer, or a lower price set to the consumer which would enable a larger quantity of products to be moved into the consumer and so benefit the producer?"

Mr. Williams said in his brief: "Almost unbelievable as it may be, it seems that these, and other gentlemen high in the councils of the AAA have never realized what business men, newspaper publishers, magazine publishers, radio operators and others engaged in the various advertising fields and activities, know so well, namely, that it is possible through advertising empenditures to increase or maintain consumption at such high rates as to put manufacturing on such volumes as will permit better wages for the worker, better prices for the producer of the raw material, and a lower, instead of a higher, price to the consumer. Suffice it to point to the record in the cigarette industry.

"In 1911 — which was before advertising was used very extensively in that industry — the total putput of cigarettes for consumption in this country was less than  $10\frac{1}{2}$  billion cigarettes. With the manufacturers entering upon a policy of heavy advertising shortly thereafter, the figures on cigarette consumption for the year 1930 reached 120 billions — more than eleven times the output of 1911.

"Meanwhile the consumption of leaf tobacco in cigarettes had been stepped up from about  $37\frac{1}{2}$  million pounds in 1911 to about 360 million pounds in 1930. Moreover the per pound return to the grower had been increased as had wages of workers in the factories, and despite an increase of \$1.75 per thousand in the Federal tax rate, the consumer was getting more for his money than ever before."

What was the total result of the enormous expenditures of money for advertising, special allowances, free deals; of the competitive price wars; and of the policies of the manufacturers as a whole? The question whether social waste is present in these policies arises directly from the fact that once the Big Three had a 96.8 percent control

of the cigarette market and in 1934 a wide gap has been opened; that control had receded to 79.5 percent; Good will, big space, the spending of more millions are the outstanding factors in the advertising story of the tobacco industry. Behind the scene of tobacco advertising stand important social and economic determinants in tobacco distribution, the manufacturers' policies.

So far as statistics are available in a field of business where the details of advertising expenditures are always peculiarly unavailable, this Chapter now turns its inquiry to the factors making up advertising appropriations; the advertising costs of tobacco compared with costs for food, oil, motor and household products advertising; the extent of newscaper, magazine and radio advertising over certain years for each of the groups; the trends and whims of the picturesque cigarette advertising copy which has created something of a bizarre new literature in business. The social responsibility of the tobacco manufacturer is the screen upon which dance the shadows of his advertising appropriations.

#### 2. The Advertising Appropriation.

When it is reported, as in 1931, that in any one single year the four leading brands of digarettes have spent approximately \$25,000,000 for advertising, only a part of the story is told. The \$25,000,000 figure is concerned with three items only in a requirement of some 41 different items of expenditure necessary for the efficient management of advertising departments as highly organized as those of the American Tobacco Company, The R. J. Reynolds Tobacco Company, Liggett & Myers Tobacco Company and others.

In a series of six articles considering the keeping of records for an advertising department, Albert E. Haase, research counsel to the Association of National Advertisers, set down in Printers' Ink, July 18, 1935, the six (6) major groups entering into an advertising appropriation. These six groups follow the soundest practice in the advertising profession and are the essential items of an advertising appropriation which is handled in part by the appointed advertising agency and in part by the advertising departments which are maintained by the manufacturer in his own administrative offices.

The backbone of an advertising appropriation intended for national circulation is made up of three classes of expenditures: The first, for magazine, the second, for newspapers; the third, for radio broadcasting.

In cigarette advertising, it is custom for the manufacturers to run campaigns in metropolitan, small-town and rural newspapers on schedules calling for the use of from 200 to 2,000 newspapers. In the last few years, it has b een the custom to carry the radio broadcasting program over nation-wide networks, for intervals varying from daily announcements to elaborate programs once a week. Usually these cigarette campaigns reach intensity in a period of ten weeks in the newspapers, and the special copy appeal is carried over in the magazines for a period of perhaps four months without substantial change in theme. The radio broadcasting goes on from season to season and becomes a fixed yearly feature of tobacco advertising.

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### (a) Items 11, 12 and 13.

The six groups of expenditures entering into an advertising appropriation are listed by Dr. Haase as follows:

#### ADMINISTRATIVE EXPENSE

- 1. Salaries .
- 2. Traveling Expenses
- 3. Rent
- 4. Heat, Light, Power
- 5. Telephone and Telegraph
- 6. Office Equip. & Spl.
- 7. Postage & Express
- 8. Research, Service Fees E. EXPORT
- 9. Association Dues
- 10. Miscellaneous

#### В. CONSUMER COFTACTS

- 11. Magazines
- 12. Newspapers
- 13. Radio Broadcasting F. MECHANICAL
- 14. Direct Mail
- 15. Farm Papers
- 16. Car Cards 17. Outdoor
- 18. Postage & Express
- 19. Miscellaneous

#### DEALER HELPS C.

- 20. Store & Window Displays
- 21. Dealer Signs
- 22. Direct Mail
- 23. Stationery
- 24. Imprinting
- 25. Electros, Mats 26. House Organ
- 27. Postage & Express
- 28. Hiscellaneous

#### D. TRADE CONTACTS

- 29. Business Papers
- 30. House Organ
- 31. Direct Mail
- 32. Postage & Express
- 33. Miscellaneous

- 34. Space
- 55. Direct Mail
- 36. Miscellaneous

- 37. Artwork, Sketches
- 38. Photographs
- 39. Engraving
- 40. Miscellaneous

#### G. MISCELLANEOUS

Under the item of "G" (Miscellaneous), in Dr. Haase's outline, it is becoming the custom in modern advertising departments, which are working units as part of the Sales Department, to list special advertising allowances and the cost usually charged to the advertising department of such free goods as may be given in order to induce dealers to put in window and store displays.

What part items 11, 12 and 13, in Dr. Haase's outline, bear to the total advertising expenditures in the distribution of cigarettes and other tobacco products remains a closely cherished administrative secret in each of the manufacturers' organizations. How much of the work is done by the advertising agencies employed, is also undisclosed but if the cigarette manufacturers follow usual practice, all of the items under "A" (Administrative Expense, 1-10); all of the items under "C" (Dealer Helps) exclusive of parts of items 20, 22 and 26; items 35 and 36 under "E" (Export) are borne directly by the manufacturer. Items under "F" (Mechanical) are in usual practice, divided. The art work and sketches for the photographs and engraving required for national advertising in the newspapers and magazines and for the larger or elaborate pieces of direct mail, are usually done the advertising agency employed, at cost, plus a standard commission of 15%, except where an agency may operate on a fixed commission based upon the net cost of this work. But all such art work and sketches and all such engraving as may be required for sales promotion purposes through wholesalers or retailers incident to factory-produced direct mail, are direct charges against the factory or manufacturer himself and are 'not always covered by an agency agreement.

# (b) The Nation's Bill for Advertising.

The cost of advertising for manufacturers of all classes throughout the United States has an average total of approximately \$1,700,000,000 a year. This figure is based upon a study made by the Association of National Advertisers, published in 1934. This study was under the direction of Albert E. Haase and made use apparently of the last available figures with respect to the value in all classification.

The items in the advertising appropriations analyzed fall into several classification. The first classification includes: magazines, national

newspaper advertising, national outdoor advertising, national radio broadcasting and national sectional and state farm journals. These are the media generally known as discount media, meaning that they pay a generally uniform 15% commission to the advertising agency as a salesman's compensation. The agencies are presumed also to be the professional agent of the manufacturer using the space. The discount media of this first classification, based upon figures totalled for 1931 - 1932, accounted for \$373,800,000 of the national advertising bill.

There is a second classification which includes business papers, industrial publications, directories and catalogs. Some of these publications give a commission to advertising agencies; others do not. Since the ordinary advertising agencies have no personal or selfish interest in placing space from which they secure no income, it follows that the national advertising bill for these publications runs to rather low levels. According to Dr. Haase's figures, these media received \$23,750,—000 (in 1931) of national advertising.

The third classification includes direct mail. window and counter displays, newspaper advertising (locally placed by wholesalers or retailers), local outdoor advertising, premium advertising, local radio broadcasting and local streetcar card advertising. The presumption here is that the cost is met, whether the work is ordered by the manufacturer himself or by an advertising agency, It is quite usual practice for the manufacturer to handle the items in this classification through his own advertising department, working in close cooperation with the sales department in the diredtion of local or regional campaigns. advertising agency is entrusted with the work, several forms of compensation in the absence of media commissions are added to the cost of the media.

In Dr. Haase: s summary of American advertising expenditures in this third classification, the following figures appear:

Direct Mail	\$343,000,000
Window, Counter Displays	
Local Newspapers (not commissionable)	450,000,000
Premiums	190,000,000
Local Radio	23,000,000
Street Car Cards	5,000,000

These figures added to the other totals in commissionable media in each of the three classifications, just enumerated, make a grand total of \$1,700,000,000, as a fair sample of the nation's yearly advertising bill.

# (c) Is Tobacco's Share 50 to 60%?

Items 11, 12 and 13 of Group B of Dr. Haase's outline of elements of advertising cost are roughly representative of 20% of this nearly two billion dollar total in the report of the Association of National Advertisers. Can an estimate be made for the tobacco industry? National circulation is the special requirement of the tobacco manufacturer; that being so, it would follow that tobacco expenditures for the same items would claim a much greater proportion that the national average of 20%.

Let it be assumed, therefore (with the specific understanding that there are no disclosed statistics known to be available to tell whether the guess is near or far from the truth), that in the instance of tobacco promotion, the Haase items 11, 12 and 13 amount to 50% or even 60% of the total tobacco industry appropriations. On that assumption, the linage estimates shown hereafter make comparisons of unusual significance.

Store displays, counter displays and window displays are of the highest value in the sale of any product as immediately consumed as is tobacco. For a good many years, the most valuable franchise in window display installation has been a contract with one of the leading cigarettd manufacturers for the preparation and the installation of window displays urging immediate purchase of cigar or cigarette. During the code hearings and the code administration hearings on the code for the Advertising Display Installation trade, evidence was offered that, in connection with each periodic newspaper campaign for tobacco, supporting campaigns were immediately planned calling for the use of from 6,000 to 25,000 store windows throughout the country. Exclusive of the cost of lithographing these displays, the installation in each store represented an average cost of \$2.50. (\*)

Evidence was also offered to show that in the intensity of competition for windows in excellent locations, it was always necessary to offer the

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<sup>(\*)</sup> Transcript of Hearing, Advertising Display Installation Code. NRA files.

retailer free goods for the use of his windows and that it was a common practice to offer as many as a thousand cigarettes for a week's display. The displays used by cigarette and cigar manufacturers have ranged from simple lithographic posters mounted on boards, to elaborate mechanical window display devices costing \$35.00 each to produce. No estimate is available to indicate what other dealer helps such as electrotype and newspaper stereotypes may be used in tobacco distribution. It is probably no considerable amount.

Margins are too narrow to permit independent advertising on the part of wholesaler or retailer to promote any special brand of cigarettes or cigars. This conclusion appears to be valid in view of the investigation made by the United States Congress and Federal Trade Commission into advertising allowances and special discounts. The practice according to the testimony before the Patman Committee, is for the manufacturer to give retail chain stores, an allowance of \$1.00 per store for window displays, store displays and local advertising.

#### 3. The Advertising Cost of Distribution.

Gilbert Hodges, member of the Executive Board of the New York Sun, speaking before the convention of the American Home Economics Association in New York, June 30, 1934, sought to determine the advertising cost of distribution throughout American industry. Mr. Hodges then said:

"Let us take the year 1929, when everything was at the highest. The advertising expenditure that year has been estimated at \$2,000,000,000. Now that's a huge sum.

"The total sales in 1929 were \$142,000,000,000.

"This means that \$2,000,000,000 in advertising moved \$142,000,000,000 in merchandise...less than  $1\frac{1}{2}$  percent of our total sales."

Mr. Hodges' 12 percent takes into consideration, of course, the thousands of manufacturers who spend little or no money on advertising on their own account but who through the manufacture of articles similar to nationally trade-marked and nationally advertised goods, enjoy the benefits of all advertising in their field. That 12 percent is useful as a yardstick of distribution efficiency but is not enough sales leverage to move such goods as drugs, toilet articles and electrical appliances, to mention but a few.

An effort was made by the Association of Mational Advertisers in 1933 to determine the distribution costs of 312 manufacturers in 29 leading industries of the United States whose aggregate sales volume in 1931 was more than \$1,000,000,000. (\*) In this analysis, the total costs of distribution were divided into the following classifications:

- Direct sales costs. (These costs included
   salesmen's salaries, bonus, commissions,
   traveling expenses and sales office expenses.)
- 2. Advertising and Sales Promotion.
  - a. Including costs of space, mechanical production, such as art work and engraving.
  - b. Salaries and office expenses of indirect selling, such as advertising department work.
  - c. Samples.
- 3. Transportation. (Including out-freight, crateage, express, long distance truck.)
- 4. Warehousing and Storage.
  - a. This includes expense only on furnished goods properly chargeable to manufacturers distribution, exclusive of wholesalers' costs.)
- 5. Credit and Collection Expenses.
- 6. Financial Expenses and Cash Discounts on Sales.
- 7. General Administrative Expenses not otherwise included.
- 8. All other distribution costs. (Not otherwise described.)

<sup>(\*)</sup> An analysis of distribution costs of 32 manufacturers published by the Association of National Advertisers, Inc., 1933.

#### B. TOBACCO COMPARED TO OTHER INDUSTRIES.

In this analysis of distribution costs, the resume presents some striking comparisons with particular reference to the amount of money spent in the tobacco industry for advertising and sales promotion.

For instance, taking the total cost of distribution as 100 percent, advertising and sales promotion in Drugs and Toilet Articles was reported to be 49.8 percent of the 1932 budget of the firms reporting. The direct selling cost stood at 24.6%.

In the Automobile field, direct selling cost constituted 50.8% of the 1932 budget and advertising and sales promotion 16.6%. In grocery products advertising and sales promotion costs take second rank to direct selling costs, being 23.4% for advertising and 36.5% for direct selling costs. Jewelry and silverware shows a like story; 35.0% for direct selling costs and 26.3% for advertising and sales promotion.

In petroleum products, direct selling costs are reported as 30.8% of the 1932 udget and advertising sales promotion costs, 18.9%.

The story changes immediately upon examining the tobacco products field. The 1932 budget taking the total cost of distribution at 100% was absorbed to the extent of 48.6% in advertising and sales promotion efforts. Direct selling accounted for 16.8%. The actual expenditures reported for 1931 showed 45.0% for advertising and sales promotion in that year with 17.7% going into direct selling costs.

In relation to net sales volume, based upon budgets for 1932, tobacco products stood second highest for advertising and sales promotion costs; drugs and toilet articles leading, of course, with an expenditure of 18.69%.

Tobacco	8.84%
Grocery Products	5.94%
	5.59%

It is interesting, therefore, to compare the cost of advertising and sales promotion efforts in moving tobacco products with the general average for the United States as reported by Mr. Hodges of  $l\frac{1}{2}$  per cent of total sales.

# 1. <u>1933-1934 Tobacco Linage</u>.

Another comparison is available which shows how much more advertising effort is put behind the sale of cigarettes than is used for automobiles, foods, household appliances and oil and gasoline. The source of the figures which are quoted is Printers' Ink which makes regularly a six-month compilation and a yearly compilation of newspaper linage by the country's 300 leading advertisers.

In 1933, Ligett & Myer used 14,988,586 lines of newspaper display space in measured newspapers and increased that amount to 19,585,349 in 1934.

R. J. Reynolds Tobacco Company used 17,159,797 lines of newspaper display space in measured newspapers in 1933 and 15,875,-063 in 1934.

The American Tobacco Company used 12,092,407 in measured newspapers in 1933 and 15,475,371 in 1934.

P. Lorillard Company used 1,267,351 lines in selected measured newspapers in 1933 and increased that amount to 4,225,455 in 1934.

The total reported linage for Chesterfield, Camels, Lucky Strike and Old Golds in this Printers' Ink compilation amounts to a total of 55,161,238 lines for 1934.

But at the same time, General Motors Corporation was advertising Chevrolet, Pontiac, Buick, Cadillac and its other prodicts in a total of 19,401,124 lines.

Lever Brothers were selling Lux, Rinso, Life Buoy in 10,590,-375 lines and Ford Motor Company used 9,660,719 lines; the Chrysler Corporation 8,469,457. Standard Brands required 5,843,671 lines to advertise Fleischman's Yeast, Chase & Sanborn Coffee and Royal Desserts; and the Sterling Products Company 3,964,496 lines to maintain sales of Bayers Aspirin, Castoria, Dr. Lyon's Tooth Powder and its other products. General Electric used 1,327,935 lines and Coca Cola 658,261 lines of national newspaper display. The total for all is 61,916,016 lines.

# 2. The Ten Magazine Leaders

In any study of advertising as affecting distribution of tobacco products, it is of singular significance to find that in the list of the first ten leading advertisers of the United States in 1934, the highest rank in expenditures in newspaper display was by the Liggett & Myers Tobacco Company. General Motors ranked second, R.J.Reynolds Tobacco Company, third; American Tobacco Company fourth; P. Lorillard Company tenth.

With little difference in the products, with prices practically the same, with manufacturing costs practically equal and little variation in the cost of raw materials, the competition among these four tobacco companies limited advertising to an intense competitive warfare for the establishment of a brand name in customer preference.

#### 3. Comparison of Advertising Expenditures.

A comparison follows attempting so far as estimates are available from Editor & Publisher and Printers' Ink, to show the excess of advertising effort in the sale of cigarettes as compared with the amount of money spent in national display space and radio time by food products, gasolines and oil, and of miscellaneous products for home consumption.

### (a) Newspaper Advertising.

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 $\alpha = \alpha + (\alpha)$ 

The most complete comparable figures available for newspaper linage by national advertisers covers the years 1933 and 1934. These have been taken from the compilations made at the end of each of these years by Printers' Ink. The 1935 totals are at this writing not yet available. The amounts spent year by year from 1911, when cigarette advertising began its dominance in newspapers, are not reliably recorded in any trade source. More extensive comparisons by dollar volume are, however, to be found in magazine expenditures.

There are significant comparisons to be made from newspaper linage during 1933 and 1934. One such comparison is immediately recognized. A new industry with a product of immediate consumption came into newspaper columns in 1933 and engaged in a brisk and clamorous war for public preference. As in cigarettes, the manufacturers in this newly re-established industry -- that of whiskies -fought for name and trademark acceptance. They had a problem, however, unusual to the whisky business; advertising, for instance, could not be done in states specifically prohibiting such sales promotion. Where advertising was permitted, the citizen found whisky ads on page after page of his daily newspapers. The volume of space had all the appearance of a campaign involving millions of dollars beyond other nationally advertised products; but, the total volume of the newspaper space used was approximately only one-fifth of that used by the four leading cigarette advertisers. The greatest amount of newspaper linage used by any single whisky distiller in 1934 was 2,599,668 lines. The greatest amount used by any single cigarette manufacturer was 19,000,000 lines. Where the least profit per unit of sale was possible, the greater was the expenditure for advertising.

Gasoline and oils closely parallel cigarettes in stability of price and narrow profit margins; each are products for immediate consumption. Here again the comparisons raise the question: If the linage used by gasoline and oil companies is adequate sales effort for name preference, goodwill maintenance and desired volume of business, is there present in the total of cigarette advertising a component of surplus effort that can only be justified in a warfare

intended to achieve a monopolistic position? Or does the difference lie in the fact that motoring is a modern necessity -- and smoking a habit that needs extraordinary urge from without to maintain its place in consumption?

In 1933, as in 1934, the largest user of newspaper linage in gasoline and oils was Socony -- 2,560,000 lines in 1933; 2,940,938 in 1934. The second largest in 1934 was Sun Oil with 2,840,000 lines of newspaper display space. Standard Oil of New Jersey ran campaigns in 169 cities, using 1,474,313 lines to pursuade the motorist to look for Standard Oil Stations when his tank ran low. Shell oil got along with 1,720,503 lines in 70 cities.

Food products offer another interesting comparison, An analysis is included showing the newspaper linage used by Standard Brands, the H.J.Heinz Company; Kellogg Company and General Foods Corporation. Standard Brands shows a total newspaper linage of 5,843,671 for its products. But American Tobacco used 15,000,000 in the same period for one product -- Lucky Strike Cigarettes.

To conclude this consideration of newspaper linage, there follow tabulations from published reports taken from newspaper sources by Printers' Ink. The first table shows the eleven leading newspaper users on a national basis among all the corporations of the nation. Of the first eleven, four are the leading cigarette manufacturers.

The next compilation reflects the competitive advertising in the sale of cigars — relatively unimportant in the total. The next compilation is of whiskies; then gasoline and oil companies and finally food products. It has only been recently that newspaper linage has been checked and compiled for all newspapers throughout the country. Figures from 1935 on will be available in that completeness. The figures here shown are not for all newspapers in the United States, but rather for what is known as the "A" list of essential newspapers in essential distributing of market centers. It may be presumed that the linage shown in these tables reaches a reader audience of more than 20,000,000 persons daily.

# (b). Magazine Advertising.

Cigarettes, cigars and smoking tobacco yield rank in the advertising pages of the magazines to motor cars, cosmetics, drugs, food and soaps.

No cigarette manufacturer was among the first ten or the "Blue Chip" magazine advertisers in 1930, 1931 and 1932. Camel Cigarettes stepped into the "Blue Chip" ranks in 1933 and 1934; maintained its place in 1935 when it was joined by Lucky Strike.

-211-TABLE 1 NEWSPAPER LINAGE

	1934		1933	
	Lines	Cities	Lines	Cities
LIGGETT & MYERS TOBACCO CO.	19,585,349		14,988,586	
Chesterfield Granger Pipe Velvet	17,103,046 2,319,001 163,302	86 54 7	13,584,340 1,404,246	81 32 -
Rank (1)				
GENERAL MOTORS CORPORATION.	19,401,104	-	13,202,769	-
Chevrolet Institutional Pontiac Buick Oldsmobile Frigidaire LaSalle	7,887,860 2,537,126 2,335,016 1,890,283 1,377,535 1,182,084 492,273	88 72 87 85 87 79	4,517,302 871,534 1,751,701 1,235,420 1,018,635 1,451,829 1,451,829	83 61 82 81 82 78
Trucks, Cadillac Air Conditioning -Delco, Rank (2)	etc.) make up	the rest		
R. J. REYNOLDS TOBACCO	15,875,063		17,150,797	-
Camel R.J.Reynolds	15,397,399	86	16,828,670	81
Tobacco Products Prince Albert	389,604 80,060	83 17	322,127	80 <b>-</b>
Rank (3)		٠.		
AMERICAN TOBACCO COMPANY			*	
Lucky Strike	15,475,371	86	12,092,407	81
Rank (4)				
LEVER BROTHERS  Lux  Rinso  Lux Flakes	10,590,375	412	11,306,513	318
Lifebuoy				
(Rank (5)				

	1934		1933	
	Lines	Cities	Lines	Cities
FCRD MOTOR COMPANY	9,660,719	183	5,312,345	187
Rank (6)				
CHRYSLER CORPORATION	8,469,457	133	7,057,967	139
Ranit (7)				
PROCTER & GAMBLE	6,525,930		5,681,974	
Camay Chipso				
Ivory Soap Crisco				
Rank (8)				
STANDARD BRANDS	5,843,671	234	5,296,955	183
Fleischman Yeast Chase & Sanborn Coffee				
Royal Desserts, etc.				
Rank (9)				
P. LORILLARD COMPANY				
Old Gold Union Leader	4,225,455 30,790	75 4	1,267,351	70 -
Rank (10)				
STERLING PRODUCTS	3,964,494	-	4,641,578	-
Bayers Aspirin Dr. Lyons Tooth Powder				
Phillips Milk of Magnesia California Syrup of Figs				
Midol				
Castoria Diamond Dyes				
(Rank (11)				
10691				

-213-TABLE 2

# NEWSPAPER LINAGE TOBACCO PRODUCTS

1934

1933

		Lines	Cities	Lines	Cities
	SOLIDATED CIGAR RPORATION				
	Harvester Dutch Masters	233,02 <del>4</del> 176, <i>2</i> 06	20 17	56,205 66,467	15 9
WAI	TT & BOND, INC.				
	Blackstone Totem	283,387 12,186	22 9	117,865	5
G.H.	P. CIGAR CO, INC.				
	El Producto La Azora	664,478 176,184	47 14	730,864 30,228	52 13
CONC	PRESS CIGAR CO., INC.	2			
	La Palina Recollection	302,782 120,334	2 <u>4</u> 16	170,830 109,291	<b>20</b> 9
BAY	JK CIGAR, INC.				
	Bayuk Mapacuba	1,260,259	40 -	909,095 39,342	34 4
GENI	ERAL CIGAR CORPORATION	ON 1,452,084	-	1,325,706	-
	White Owl Robert Burns Van Dyck	859,275 396,560 196,249	33 21 23	857,251 27,655 440,800	62 6 27

# -214-TABLE 3 NEWSPAPER ADVERTISING - WHISKIES

	1934		1933	
Corr Gray (Special Annual Annu	Lines	Cities	Lines	Cities
SCHENLEY DISTILLERS				
CORPORATION	2,599,668	53	68,582	16
Golden Wedding				
Cream of Kentucky				
Mayflower,				
Jas. E. Pepper				
Old Quaker (And 16 other products)				
(And 15 other products)			1	
NATIONAL DISTILLERS PRODUCTS	2 360 201	53	186,923	41
NATIONAL DISTIBILITY INCOMESTS	2,500,201	00	100,020	-21
Crab Orchard				
Brigadier				
Cld Overnolt Town Tavern				
(And 8 other products)				
CONTINENTAL DISTILLING				
CORPORATION	1,880,065	39	33,481	11
Sweepstakes				
Dixie Bell Gin				
Snug Harbor (And 5 other products)				
(And 5 other products)				
		477	05.010	
FRANKFORT DISTILLERIES INC.	1,542,952	47	25,012	11
Paul Jones				
Four Roses				
(And 4 other products)				
SEAGRAMS DISTILLERS				
CORP. PRODUCTS	1,540,847	53	-	-
HIRAM WALKER & SONS INC.	936 <b>,358</b>	56	263,602	38
,				
Canadian Club				
(And 4 other products)				

	1934		19:	1933	
	lines	cities	lines	cities	
GOODERMAN & WORTS Ltd.	803,025	34	38,999	5	

G. & W. Whiskey London Dry Gin G. & W. Liquors

-216-TABLE 4

# NEWSPAPER ADVERTISING - OIL COMPANIES

		1934	1933	
	Lines	Cities	Lines	Cities
STANDARD OIL OF NEW JERSEY	1,474,313	169	1,140,575	170
SHELL OIL	1,730,503	70	1,986,241	64
CONTINENTAL OIL	1,623,885	49	1,655,041	40
AMERICAN OIL	1,462,336	41	1,553,251	41
TIDEWATER OIL	1,414,628	45	1,028,830	38
GULF REFINING COMPANY	1,291,505	61	2,425,076	51
SINCLAIR REFINING COMPANY	1,202,573	60	1,098,436	54
STANDARD OIL COMPANY OF CALIFORNIA	920,479	12	860,113	20
TEXAS COMPANY PRODUCTS	561,422	77	1,441,475	70
STANDARD OIL COMPANY OF INDIANA	2,008,326	15	2,161,192	12
SOCONY VACUUM OIL CO., INC., PRODUCTS	2,940,938	67	2,560,840	50
SUN OIL COMPANY	2,840,762	46	1,737,056	42

-217-TABLE 5

# NEWSPAPER ADVERTISING - FOOD PRODUCTS

	1	93 <del>4</del> 	193	33
-	Lines	Cities	Lines	Citie
FANDARD BRANDS	5,843,671	-	5,296,995	-
Fleischman's Yeast	2,822,316	75	2,794,703	71
Chase & Sanborn Coffee		50	1,725,481	47
Royal Desserts	356,630	26	316,401	33
Royal Baking Powder	150,668	18	180,806	18
noy on saisab to have	200,000		200,000	10
. J. HEINZ COMPANY	3,634,429	~	1,977,622	-
Heinz Soups	1,242,162	66	255,166	48
Ketchup	540,154	65	110,361	47
Baked Beans	487,887	64	221.181	50
Rice Flakes	403,741	44	120,417	29
Condiments	75,796	51	266,025	56
ELLOGG COMPANY	3,379,918	-	3,959,838	
Corn Flakes	1,015,806	<b>7</b> 8	1,084,412	74
All Bran	993,595	86	1,127,611	74
Rice Krispies	618,321	78	678,707	74
Kaffee Hag	294,548	56	541,786	49
Pep	271,262	70	78,579	27
ENERAL FOODS CORPORATION	3,339,776		3,306,421	
Postum	713,290	49	152,111	48
Grape Nuts Flakes	483,948	80	182,537	75
Post Toasties	453,064	66	886,524	68
Calumet Baking Powder	412,092	65	553,814	65
Bran Flakes	393,586	74	379,317	65
Sanka	304,107	24	284,695	22
Certo	217,151	72	225,171	68
Grape Nuts	101,047	53	119,880	42
Scattered space for eleven (11) other products.	101,01			

1,757,529

Ovaltine

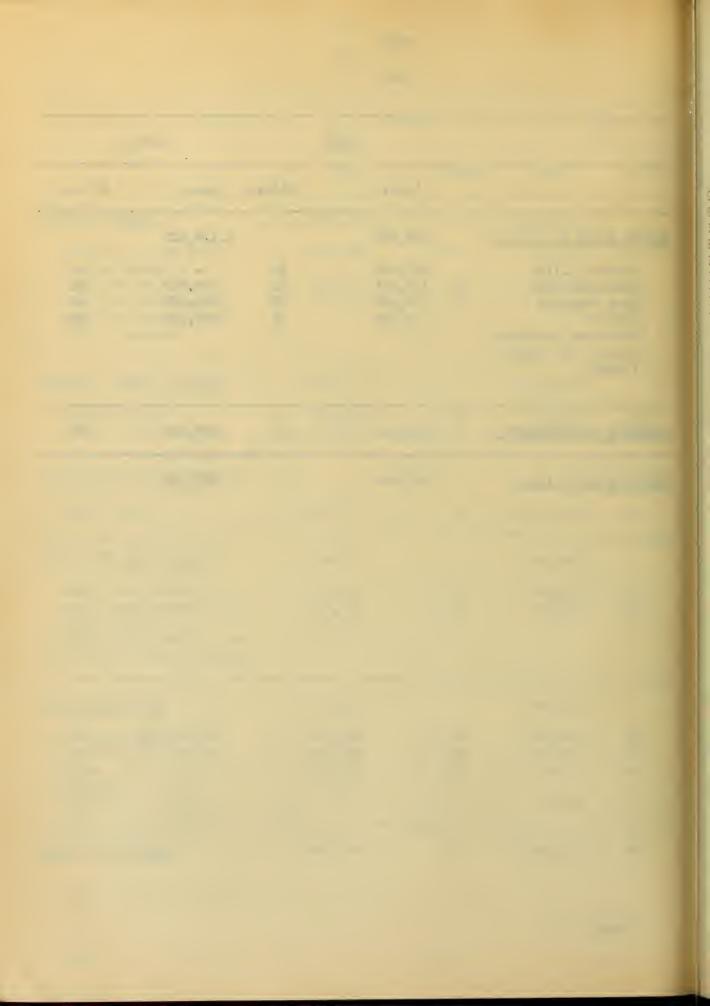
1,042,345

75

56

	1934		1933		
	Lines	Cities	Lines	Cities	
NATIONAL DAIRY	1,395,422	-	2,823,5)3	60	
Sheffield Farms Milk Krafts' Miracle-	<b>406,38</b> 3	11.	380,919	10	
Whip Salad Dressing Breyer's Ice Cream Other Products Include Kraft Cheeses	210,431 165,975	24 11	760,614 71,838	44 10	
NATIONAL BISCUIT COMPANY	1,333,156		1,557,992		
Shredded Wheat National Biscuit	763,464 046,4 <b>72</b>	80	783,446 776,291	82 81	
CONTINUENTAL BAKING COMPANY					
Wonder Bread	1,043,274	44	1,567,134	39	
THE QUAKER OATS COMPANY	1,022,021		<b>7</b> 59,996		
Quaker Oats Cereal Aunt Jemima Pancake Flour Quaker Oats (Four other products used	570,887 209,810 42,233	63 65 19	652,614 96,347	62 50 -	
up rest of total linage)					
BEST FOODS INC.	900,331		860,514		
Hellman's Mayonnaise Best Foods Mayonnaise Nucoa Mustard	406,154 322,754 153,547 17,376	44 26 16 9	432,607 424,874 -	39 21 -	
Condiments	-	-	3,033	3	
SALADA TEA COMPANY	822,090	42	694,283	38	

	1934		1933	
-	Lines	Cities	Lines	Cities
BORDEN SALES CO., INC.	848,993		1,114,921	
Borden's Milk	386,460	20	-	-
Condensed Milk	119,491	21	72,329	22
Farm Products	97,053	25	451,886	16
Cheeses (Six other products account for rest of limage)	26,324	9	570,204	36
CAMPBELL SOUP COMPANY	560,615	65	522,023	20
HECKER H-0 CO. INC.,	447,948		761,010	



Of all American businesses advertising nationally, the sixteen which spent more than \$1,000,000 each in 1934 and 1935 -- as the country began to merge from the depths of the depression were the following as reported by National Advertising Records, Inc., in Editor & Publisher (N. Y.), issue of January 18, 1936.

	1935	1934
General Motors Corp.	\$5,148,564	\$4,569,644
Chrysler Corp.	2,501,131	2,194,684
Standard Brands, Inc.	2,413,247	2,710,843
R. J. Reynolds Tobacco Co.	2,268,316	2,799,654
Procter & Gamble Co.	2,193,561	2,936,182
Bristol-Myers Co.	1,793,155	1,390,898
Lever Bros. Co.	1,784,878	2,239,453
Lambert Co.	1,780,415	1,965,819
General Foods Corp.	1,713,091	2,248,592
Campbell Soup Co.	1,711,235	1,929,433
American Tobacco Co.	1,557,584	780,228
General Electric Co.	1,428,046	1,628,630
H. J. Heinz Co.	1,256,314	1,171,444
Lamont Corliss & Co.	1,140,229	1,177,044
Colgate-Palmolive-Peet Co.	1,094,474	826,537
Sterling Products, Inc.	1,089,322	917,787

In 1928, there were only eighteen manufacturers in the United States spending a million dollars or more in magazines of national circulation. In 1929, there were 25 in the million dollar class. In 1930, there were 29. In 1931, this number receded to 23. In 1932, only sixteen corporations remained in the million or more class. Appropriations for national magazines were low again in 1933 -- national advertising showing a general decline of twenty per cent. (\*) The records of expenditures in national magazine space to tobacco companies is shown as follows:

	1930	1929
American Tobacco Co.	\$1,545,474	\$ 900,646
Axton-Fisher Tobacco Co.	367,164	292,959
Brown & Wm. Tobacco Co.	288,943	406,825
Liggett & Myers	1,376,910	1,378,718
Lorillard, P. Co.	834,621	403,425
Reynolds Tobacco Co.	1,425,975	1,031,432
	1932	1931
American Tobacco Co.	1,556,846	1,462,654
Axton-Fisher Tob. Co.	525,200	532,255
Brown & Williamson Tob. Co.	296,540	38,202
Larus & Bros.	144,073	121,233
Liggett & Myers	933,515	1,614,833
P. Lorillard Co.	133,193	171,995
R. J. Reynolds Co.	1,599,460	1,508,770

<sup>\*)</sup> Data from records of Checking Bureaus published in Printers' Ink - 1930, 1931, 1932, 1933, 1934 and 1935.



·	1934	1933
	(First 6	(First 6
	months only)	months only)
Liggett & Myers	273,268	353,565
Larns & Bros. Co.	129,072	57,955
R. J. Reynolds Tob. Co.	1,357,474	959,555
American Tobacco Co.	346,359	415,105
Brown & Williamson Tob. Co.	237,378	137,892
Axton-Fisher Tobacco Co.	275,360	254,790

The ten leading magazine advertisers in 1930 (reported by Printers' Ink, Issue of January 22, 1931) were:

General Motors Corp.	\$7,099,275
Procter & Gamble Co.	4,512,500
General Foods Corp.	4,248,871
Standard Brands, Inc.	3,400,181
Drug, Inc.	3,049,887
Lambert Phar. Co.	3,027,892
Colgate-Palmolive-Peet Co.	2,969,717
General Electric Co.	2,708,109
Ford Motor Co.	2,224,855
Lever Bros., Inc.	2,008,577

"The total magazine advertising expenditure in the eighty-six magazines of the leading 150 advertisers in 1930 was \$116,435,914. The total expenditure for all magazine advertisers—in the eighty-six magazines checked for this survey—was \$201,854,510. The 150 leading advertisers spent 57.68 per cent of the grand total. In 1929, the 150 leading advertisers spent \$108,649,113 in the publications checked or 53.31 per cent of the total for all magazine advertisers, which was \$203,776,077."

The list changed slightly in 1931 and for 1932, showed these leaders:

General Motors Corp.	\$5,221,786
Procter & Gamble Co.	3,389,920
Drug, Inc.	3,203,750 <sup>.</sup>
Standard Brands, Inc.	2,702,764
Lever Bros. Co.	2,568,113
General Foods Corp.	2,471,373
Lambert Pharmacal Co.	2,327,335
Colgate-Palmolive-Peet Co.	1,934,251
Campbell Soup Co.	1,847,675
General Electric Co.	1,684,145
Chrysler Corp.	1,615,757
R. J. Reynolds Tob. Co.	1,599,460
American Tobacco Co.	1,556,846
H. J. Heinz Co.	1,287,777
Swift & Co.	1,307,984
Pepsodent Co.	1,033,196

For the year 1934 - continuing the comparison with tobacco companies -- the leaders in each of several fields were approximately:

General Motors	\$5,446,000
Chrysler Corporation	
Ford Motor Company	
Procter & Gamble	
Bristol-Myers Co	1,500,000
General Foods	2,250,000
Standard Brands	3,150,000
Socony-Vaccuum	350,000
Texas Company	500,000
Standard Cil of N.J	450,000

### (c) Radio Braodcast Advertising.

A careful reticence meets the effort to secure like detailed expenditures by specific national advertisers for radio broadcasts. Cigarettes provide, however, a large and popular part of the national entertainment over the air. The Bureau of Advertising of the American Newspaper Publishers Association estimated in an analysis published in May, 1935, that, on the average, national advertisers were devoting 23.4 percent of their total advertising appropriations in 1934 and 1935 for radio programs. Tobacco companies are, it is assumed, spending probably not to exceed 20% of their advertising budgets on the radio.

If the figures are all-inclusive of radio costs, none of the tobac-co companies spent, individually, a million dollars for radio in 1935. National Advertising Records, Inc., in Editor & Publisher, January 18, 1936, annunced this following list of the million dollar radio campaigns of 1934 and 1935.

### The \$1,000,000 Broadcasters.

(Following is a list of broadcast advertisers spending more than \$1,000,000 each on the National, Columbia and Mutual Broadcasting system in 1935, as reported by National Advertising records.)

	1935		1934
Procter & Gamble Company  General Foods Corporation  Maxwell House Coffee  Post Toasties  Grape-Nuts, etc.	\$2,104,697 1,948,509	,	969, 236 , 450, 575
Standard Brands, Inc	1,938,577	1	,847,178
Ford Meter Company	1,928,860	1	,191,577

menon () antiquitates ()	1935	1934
Colgate-Palmolive-Peet Co Sterling Products, Inc Bayer Aspirin Dr. Lyon's Tooth Powder And other products	\$1,679,037 1,422,640	\$1,333,873 1,448,651
American Home Products Kolynos Bisoldol, etc.	1,211,568	898,300
Lady Esther Company	1,100,998	963, 836
Pepsodent Company	1,098,996	1,642,153

Radio advertising showed a 20% increase in 1935 over 1934 sales of time. Gross time sales were reported in February, 1936 issue of Broadcasting as \$87,500,000. The depression low for radio programs was \$57,000,000 in 1933. How close a rival radio has become of newspapers and magazines may be judged by comparing radio's \$87,500,000 with a total of \$165,000,000 for national advertising in newspapers and \$113,000,000 in magazines during 1935. Radio is constantly playing a more important part in tobacco advertising campaigns.

### 4. Recapitulation

Based on an analysis made of 367 national advertisers in 1934, the Bureau of Advertising of the American Newspaper Publishers' Association announced these comparisons in Editor & Publisher, issue of May 18, 1935:

- a. 367 national advertisers spent \$223,216,520 in 1934 in news-papers, magazines and radio.
- b. 60 food companies spent \$38,750,846 in these three mediums.
- c. 13 motor car manufacturers spent \$29,930,032 in the three mediums.
- d. Drug companies spent \$15,691,671 in the three mediums.
- e. Beverage groups spent \$9,115,279 in the three mediums.
- f. Ten tobacco companies spent \$33,949,000 in the three mediums.

The average expenditure per advertiser in the three mediums in 1934, was \$608,219. The average expenditure per tobacco advertiser on this basis, was \$3,394,000.

Another basis of comparison claims consideration. The Bureau of Advertising of the American Newspaper Publishers' Association, issued an analysis of 357 advertisers spending a combined total of \$121,195,000 for the year 1932 (\*). There was a sharp decline, all media considered,

<sup>(\*)</sup> Printers! Ink, page 29, issue of June 8, 1933. 10691

of 20% in 1932 from the expenditures of the year before. Thirteen automobile manufacturers are credited with an excenditure of \$21,915,000 in 1931 — an average for each motor car manufacturer of \$1,685,789.

"In the tobacco group", says the survey, "nine companies spent \$22,265,000 in 1932 compared to \$28,235,000 in 1931." This gives an average of \$2,473,888 per advertiser. The linage tabulations in this section have already shown that except for the intensive campaigns behind Camel, Chesterfield, Lucky Strike and Old Gold, the advertising expenditures of other companies marketing cigars, cigarettes, smoking tobacco are well below the average of moderate size national advertising campaigns.

### 5. Estimating the Total Cost.

These statistics hint that one should perhaps lend a not too suspicious ear to the rumors of advertising agency executives and special newspaper advertising representatives indicating that, at times, one or more of the Big Three has spent in excess of \$18,000,000 a year in advertising of all kinds. Such stories are the inspirational legends of the advertising game; and they may merely indicate, to borrow a slogan from a recent Camel campaign, that: "It's fun (even for an advertising man)" to be fooled."

Twenty million dollar campagns are, however, not unknown to advertising. Exactly how much Camel or Chesterfield or Lucky Strike has spent in any one year is not verifiable. If the good-will of \$54,000,000 in The American Tobacco Company's statement, earlier quoted, is made up largely of advertising values added to name-brands, it is certain that expenditures enormously in excess of all industry averages have been the rule among the Big Three, revealing perhaps not only an economically sound competition for consumer preference as among brands but, on top of that an exuberant inter-company competition in advertising, as advertising, for whatever rewards and glory there may be in advertising dominance through bigger space and bigger and better claims.

When it is considered that available statistics do not purport to cover more than 68 of the magazines published nor more than 300 of the 1,500 or more daily, semi-weekly and weekly newspapers of advertising worth, even after all rumors and advertising circle statements are dismissed, it is evident that the \$33,940,000 does not represent the total of tobacco advertising. What part it does represent is as unknown as the exact position today of the flag that admiral Peary left on a cairn the day he discovered the North Pole.

The annual report of S. Clay Williams to the stockholders of the R. J. Reynolds Tobacco Company in an account of his stewardship for 1932, as reported in Printers' Ink, called attention to a reserve of \$8,149,445.72 for 1932 as compared with \$2,403,710,79 for the year before. Four Million dollars of this reserve was "money that the company appropriated for advertising in 1932 but which it did not spend."(\*)

<sup>(\*)</sup> Printers' Ink, issue of January 19, 1933.

Mr. Williams is further quoted: "This \$4,000,000 of advertising accumulation charged against 1932 earnings is carried forward as a reserve and represents an additional amount available for advertising in 1932."

### C- WHAT IS THE COST?

Based on the assumption that the Haase items 11, 12 and 13 (\*) are an actual 60% of the total advertising cost in the tobacco industry, rather than the national average of 20%, the expenditures of ten tobacco companies in 1934 for these three items calculated as \$33,949,000 represented total advertising expenditures for the year of \$56,580,000.

<sup>(\*)</sup> See Section ii, part 3, this chapter.)

### D. THE EFFECTS OF ADVERTISING COMPETITION

Advertising is a business and a profession of increasingly greater importance in the American scheme of distribution. The graphic arts are in the main dependent upon the volume of advertising in any one year for the operation of printing, lithographing and engraving plants.

Advertising linage in increasing volume has results that reach out in many directions. Advertising begets advertising. It is the voice of business competition. As the leaders begin to compete for available markets, the others follow in less conspicuous regional and local campaigns. The popular slogan calls forth a hundred echoing imitations. Newspapers, magazines, radio, lithographers, engravers and printers acquire more business. Salesmen pack their sample grips; and the combat forces of competition are on the march. Employment of workers; greater purchases of raw materials; brisker circulation of money are attendant results. S. Clay Williams has pointed out in his brief on the AAA the round of benefits that follow increased factory production through consistent advertising.

There is no gainsaying the business-producing power of well-directed advertising. But there are other questions in the problem of sales exploitation beyond the mere volume of advertising as such.

Beyond that demonstrable result, as behind a curtain, stands the question: How much social waste is present — if it be present — in these tobacco advertising campaigns in the light of the factual evidence making up the body of this Study? What is the ultimate economic result upon the consumer, the grower, the processors of all kinds and sizes? Is advertising being used in its true power and strength in terms of the social and financial responsibilities of an important industry? Today's gain is sometimes tomorrow's sorrow. The answer must, however, await a full examination and appraisement of all the component factors of the problem.

John Benson, president of the American Association of Advertising Agencies in 1931 (Printers' Ink, April 2, 1931) states: "The future of advertising will be along the line of reducing the cost of distribution, as well as stimulating sales, and this will come about through making advertising more reliably and informatively serve the consumer."

### E. ADVERTISING ALLOWANCES.

To all advertising expenditures should properly be added as part of a manufacturer's advertising and sales promotion costs, the special price concessions to favored wholesalers and retailers that business calls the advertising allowance. The advertising allowance has a twin of concealment and discrimination known as the secret rebate, the secret discount -- items not shown on auditable invoices.

In the tobacco industry, advertising allowances and special discounts proceed from the distribution policies that tobacco manu-

facturers maintain in order to secure department store, chain store, and other favored wholesale or retail outlets. To judge the social, economic and financial effects of distribution, advertising must properly be considered not only in terms of copy appeal, space and media used but also in terms of allowances and special promotion discounts. The total is the exploitation cost.

### 1. Tobacco products as loss-leaders.

Elsewhere this Study has pointed out that few products lend themselves so readily to the loss-leader form of retailing competition as do cigarettes and other tobacco products. So widespread had the practice of loss leaders been followed throughout the country that in making appraisement of the results upon retail trade, the National Code Authority for Retail Trade Code, No. 60, wrote this indictment: (\*)

"The period ending in 1933 saw the development of the socalled 'loss-leader' to the point of absurdity.

"A 'loss-leader' is an article of merchandise, ostensibly desirable, priced far below a normal figure - at times below invoice cost - to entice trade, in the expectation that customers so attracted to the store would purchase other and more profitable merchandise.

"Some stores which used this method extensively relied upon the natural wants of their customers in other lines to stimulate other sales and recommense them for the loss entailed in the profitless selling of the loss-leader!. Others used 'loss-leader' merchandise of so low a quality that the customer's own common sense could be relief upon (with subtle stimulation of salesmanship) to switch the purchase to better - and more profitable goods.

"One of the inevitable results of 'loss-leaders' merchandising was a wave of price wars. The offering of such a leader in a community would inaugurate a series of price cuts among the competing stores, terminating, more often than not, in sales far below cost.

"The resulting losses wrought unfair competitive hardship upon specialty stores and small establishments
carrying a limited number of lines, since such an establishment might be caught up in a price war involving one
of its few lines - perhaps its only line. This was particularly true because nationally advertised branded lines,
which form an important part of the stock of many such
stores, were the favorite items of such 'loss-leader'
merchandising.

<sup>(\*)</sup>Reply of National Hetail Code Authority, Inc.: to Litization Division, NFA, April 1, 1935. Litigation Division Files, NRA.

"The obvious effect of the 'loss-leader' was to disrupt fair competition. Resourceful stores could, by judicious price-cutting, drive weaker competitors out of business - preparatory to raising prices when the competition had been disposed of.

"This was particularly true whenever a new store utilized this device to lure the patronage of a community away from the established merchants.

"......The competitive pressure in retailing backed up against the manufacturer and wholesaler in the form of insistent demands for lower and lower prices to meet or undersell competitive retail prices.

"The manufacturer or wholesaler not only watched his volume decline; in addition, he was forced to grant price concessions to absorb part of the loss that was being forced on the retailer. This was one of the factors which forced the manufacturer to drive down wages of his own labor, in order to meet the demand for cheaper prices.

".....Further, this pressure on manufacturers and wholesalers was greatest when it was exerted by retailers and groups of retailers with large buying power and plentiful cash reserves, resulting in further increasing their competitive advantage."

### 2. Effect Loss-Leader on Retailers.

Testimony as to the direct effect of tobacco as lossleader advertising was presented to the House Ways and Means Committee in May, 1935 by many tobacco wholesalers and retailers.

Addressing himself directly to the loss-leader provisions of the Retail Code, Siegfried F. Hartman made this statement:

(\*) "The grocery stores of this country, the food stores of this country, sold over \$100,000,000 of tobacco products as loss-leaders. That tremendous sum of \$100,000,000 represented only one per cent of the total volume of the grocery stores. So that they could well afford to sell those tobacco products at invoice cost or less.....

"And yet, while that tremendous volume represented only 1.3 percent of their business, it represented over fourteen (14) percent of the total volume of tobacco products sold throughout the country with these two results: fourteen (14) per cent of the gross business of the tobacco dealers was taken away

<sup>(\*)</sup> Statement of Siegfried F. Hartman, Counsel for the Retail Tobacco Dealers of America and Code Authority for the Retail Tobacco Trade, before the House Ways and Means Committee Record of Hearing, page 557.

from them, first; and second, that with respect to the remaining tobacco products the retail dealers were able to sell, they were compelled to sell them in competition with the grocers at cost or less, and their profits were entirely eliminated.

"Now you gentlemen can appreciate that it does not mean much to a grocery store to sell one per cent of its products at a loss, but it means a great deal to a tobacconist to sell sixty to seventy to eighty per cent of his product at a loss. And that is why this loss-leader practice which was so vicious particularly in the tobacco trade, because of the susceptibility of tobacco products for use as loss-leaders, had such a demoralizing effect upon the industry, and that is why the stabilization of tobacco prices as a result of these codes, worked such great benefits."

### 3. Advertising Allewances to Chains, etc.

The effect of advertising allowances on wholesaling and retailing in tobacco and other fields has been under study in the Federal Trade Commission and in committees of the House of Representatives in investigations of chain stores and the activities of the American Retail Federation. The story of advertising allowances in the tobacco field was prominent in the July, 1935 hearings. As summarized in Editor & Publisher, July, 27, 1935, these facts emerge:

"Representative Wright Patman in inquiring into the advertising practices of chain-store organizations has estimated the advertising expenditures of ten of the chain-store systems, whose representatives were active in organizing the retail federation, at \$40,000,000 a year. By exploring the operations of Atlantic & Pacific, the committee has accounted for \$6,000,000.

"The Committee chairman says "Editor and Publisher" proposed to inquire of the witnesses whether there is an accounting to the firms from which advertising allowances are taken. No such accounting exists in the A. & P. System, it was disclosed.

"Charles W. Parr, assistant to the chief buyer for A. & P.'s 15,200 stores, was the source of the committee's information on much of what has been brought to light to date. The organization's annual advertising bill, he said, is matched by the amount which is collected from food manufacturers, running about \$6,000,000 a year.

"F. W. Gundrey of the A. & P. purchasing staff stated that the total of advertising allowances and special quantity discounts for the year 1934 was \$6,105,000 in round figures. Brokerage allowances brought in \$2,000,000 additional. These items are unrelated to prices or invoices.

\*Flat sums were more common among the biggest companies. In various cases also, the allowances went up by a graduated scale

as volume increased. For the Hershey chocolate line for instance, there was a flat allowance of \$5,000 a month, or \$50,000 a year. Corn Products paid the same, as did Gold Medal foods (Bisquick and Wheaties). Gulden's mustard was down for \$3,000 a month for six months.

"Liggett & Myers (Chesterfield cigarettes) was listed at S1 per store per month for seven months, which figures out to around \$105,000 for the full A. & P. set-up of 15,200 stores. Lucky Strikes and Camels were not listed, although several less popular cigarettes contributed varying sums.

"Wrigley's chewing gum allowed \$7,000 a month or \$84,000 a year.

"General Foods Corporation, Inc., line, 330,000 flat for advertising allowance a month, or 5 per cent discount for advertising."

Allowances running as high as \$12,000 a year for newspaper advertising were revealed in a statement of allowances received by Liggett Drug Company, Inc., filed with the special House Committee on The Investigation of the American Retail Federation.

The total amount of allowances more than paid Liggett's full advertising bill, and left a substantial profit, according to figures furnished the committee in a letter from W. Watt, executive vice-president of Liggett, giving the following statements:

- "(1) The total amount received by Liggett's in the form of compensation and allowances for window and counter displays during the year 1934 were \$797,385.56.
- "(2) The amount received for the first six months of the year 1935 was \$379,941.23.
- "(3) The total amount expended for advertising during the year 1934 was \$638,644.13; for the first six months of 1935, \$320,530.06.
- "(4) So far as we know, this company has not received any other benefits or advantages from these manufacturers or suppliers not available to the trade generally."

A separate Liggett letter gave the company's total sales for 1934 as \$44,064,594.

The allowances for newspaper advertising are given in the accompanying table, together with the trade and cash discounts shown on invoices.

This is the evidence from one great chain. There are scores of other chains about which less is known. There are many great department stores which set the pace for selling practices and advertising methods in their own regions—some of national influence.

-231-TABLE 6

"PRINTERS' INK"
Aug. 22, 1935

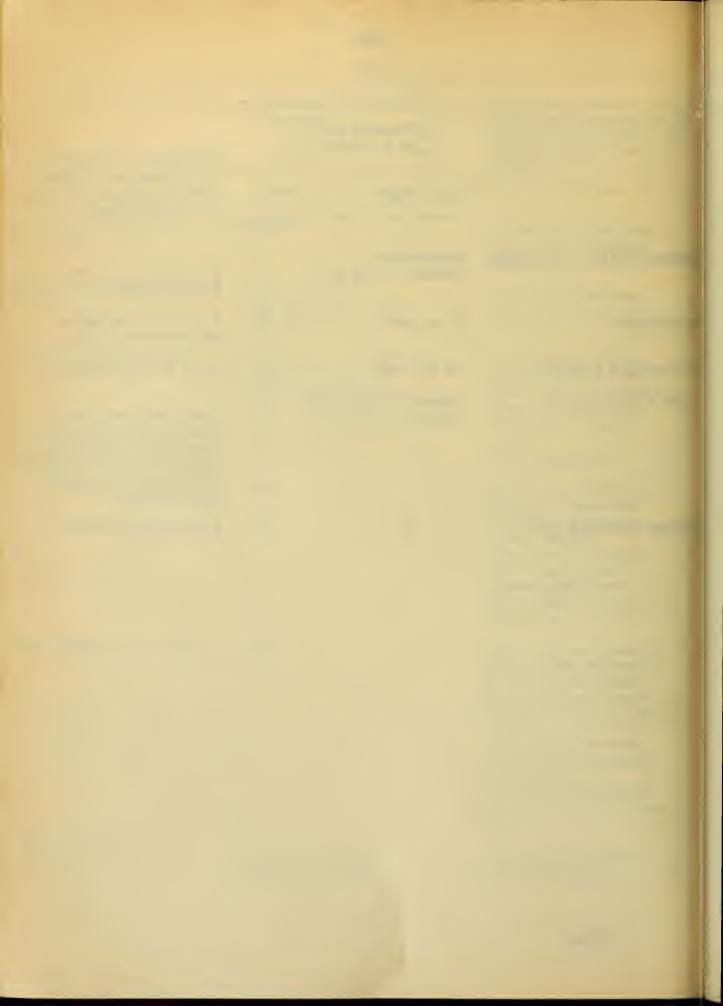
### LIGGETT DRUG CO. INC.

	Discounts shown on inv	roices	Additional compensation and
	Trade	Cash	allowances for window and counter displays and advertisting
M	Pe	r Cent	
Jigar department: AMERICAN TOBACCO CO.	Minimum 10 per cent maximum 12 per cent	2	Herbert Tareyton cigarettes; 5 per cent of purchases for Lucky Strike cigarettes; \$25 per store making window dis- play for 1 week; Cremo cigars, \$25 per store making window display for 1 week
AXTON-FISHER TOBACCO			
COMPANY	10 per cent, deals net	2	Head Play cigarettes; 25 cents per thousand purchased.
BAYUK CIGARS, Inc.	10 per cent	2	5 per cent purchases Bayuk Phillies
BROWN & WILLIAMSON TOBACCO CORPORATION.	do	2	5 per cent purchases except Wings cigarettes.
CHRISTIAN PEPER TCBACCC CO.	do	2	5 per cent purchases Listerine Cigarettes
CONGRESS CIGAR CO.	Minimum 10 per cent maximum 12 per cent	2	5 per cent purchases La Palina listed over \$75 per thousand; 3 per cent purchases La Palina listed under \$75 per thousand except Minutes.
CONSOLIDATED CIGAR CO.	12 per cent	2	5 per cent purchases Dutch Masters
DEISEL-WEMMER-GILBERT CORPORATION	Minimum 10 per cent maximum 12 per cent	2	5 per cent purchases San Felice, de luxe and panetelas.
DIAMOND MATCH CO.	Most items net; few, 1s	5 per 2	62 cents case on some items \$1.25 case on others.

	Discounts shown on invoices	<u></u>	ADDITIONAL COMPENSATION AND
	Trade C	ash	ALLOWANCES FOR VINDOW AND COUNTER DISPLAYS AND AD* VERTISING
	Pe	er Cent	
S. FRIEDER & SONS CO.	Net (1)	2	75 cents per thousand on purchases of Reynaldo Bankers.
GARCIA GRAND CIGARS, INC.	Minimum 10 per cent, maximum 14 per cent	2	7 per cent purchases Garcia Grande
I. LEWIS CIGAR MFG. CO.	Minimum 20 per cent and 12 per cent; meximum 22 per cent and 10 percent	2	5 percent purchases John Ruskin and Flor de Melba cigars, \$1.50 per thousand purchases of La Provedora Cigars.
LIGGETT & MYERS TOBACCO CO.	10 per cent	2	\$3,300 per month
P. LORILLARD CO., Inc.	do	2	5 per cent purchases Old Gold cigarettes 5 per cent purchases Muriel cigers 5 per cent purchases Polar cigarettes 92 cents per dozen Union Leader humidor tin purchases.
HILIP MORRIS & CO., Ltd.	do	3	4 per cent purchases Cxford Blues cigarettes 3 per cent purchases English Ovals, Players and English blend cigare- ttes. 5 per cent purchases Malborc and Cambridge digarettes. 54 cents per thousand purchases of Time cigare- ttes.
	Minimum 10 per cent maximum 10 per cent and 5 per cent	2	5 per cent purchases Kentucky Winners.

Disc	ount	S	shown
on	invo	ic	es

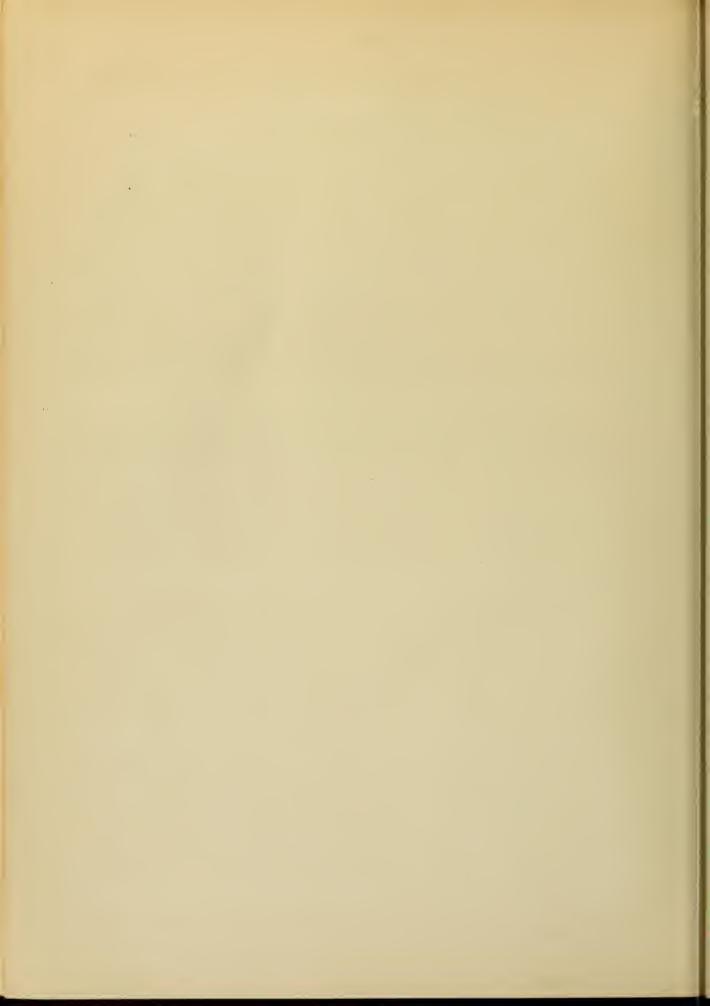
	on invoices		
			_Additional Compensation
	Trade	Cash	on Allowances for Win- dow and counter Displays and Advertising.
	•	Per Cent	
BERNARD SCHWARTZ CIGAR CORP.	Minimum net,		â
	maximum 12 per cent	2	5 per cent purchases R.G.Dun cigars.
MAX SCHWARTZ	5 per cent	(1) 2	3 per cent purchases La Primadora cigars
3.W. VanSlyke & Horton	10 per cent	2	2 per cent purchases.
AITT & BOND, Inc.	Minimum 10 per cent maximum 12 per cent	2	5 per cent purchases of Blackstone cigars listed over \$75 per thousand; 3 per cent on Blackstone cigars listed under \$75 per thousand.
WEBSTER EISENLOHR, Inc.	do	. 2	5 per cent purchases.



To judge the full extent of the practices revealed, a far wider and deeper research is needed for the benefit of all distribution, in tobacco and other products.

As indicated in point 6 of distribution tendencies (introduction to this chapter), the cigarette is a natural loss leader. But the statement must be made that in the use of tobacco as loss leaders, the great chains are not today the worst offenders. The chains have seen the profits possible from tobacco selling and they have built now so large a volume in tobacco that there is today a marked tendency on the part of the national and regional chains to require their managers to show operating profits in their tobacco departments. This is, in all liklihood, another indication that the national chains have, in reaching maturity in expansion, sought a relative stabilization in prices. However in areas of keen competition, the chains while not initiating the tobacco loss leader, will meet local price competition, producing temporary price demoralization. This question of loss leader selling must be considered apart from the practice and the effects of special advertising and sales allowances.

Throughout the distribution field, if an orderly and socially intelligent solution for the ills is to be found, there is great and pressing need for a thorough examination and evaluation of sales and advertising methods.



### CHAPTER VII

# THE IMPORTANCE OF THE TOBACCO MANUFACTURING INDUSTRY TO THE FEDERAL GOVERNMENT AS A SOURCE OF TAX REVENUE

It is not the province of this study to pass upon the various problems of taxation as illustrated by this industry. Tobacco products, however, furnish the Federal Government with so large a proportion of its excise receipts that certain facts on taxation are furnished herewith for a better comprehension of the industry.

### A. GIVERAL

The excise on manufactured tobacco is one of the oldest forms of federal taxation. It has been for many years a major source of internal revenue. The habit-forming characteristics of all tobacco products, and the constant growth in cigarette smoking among both sexes, are responsible for a strikingly steady increase in tax revenue since the World War, as evidenced in Table I following, showing total receipts from excise collections on tobacco products.

In 1917 the excise per thousand on small cigarettes was increased from \$1.25 to \$3.05, or 64%, and again raised to \$3.00 in 1919, another increase of 46%. The primary reason for the second increase was to compensate the Government for loss in liquor taxes. In 1918 at the higher tax rate, production of small cigarettes increased 32% over the previous year. Similarly, the increase in excise rate in 1919 (February) did not prevent a 14% increase in production over 1918.

The depression period had relatively little effect (10%) (\*) on federal tax returns from all tobacco products. In 1935, (fiscal year ending June 30th) tobacco taxes totaled 459 million dollars, and the first half of the 1936 fiscal year showed tax receipts from this source of 245 millions, or at the rate of about 500 millions for the 12 months' period. It is safe to state that small cigarettes, now taxed at  $6\phi$  per package of 20 represents, with a possible exception of taxes on liquor, the most profitable source of tax revenue on any manufactured product.

The trade magazine TOBACCO LEAF, as of July 6, 1935, quotes the monthly publication FORTUNE as believing that "not only is there an enormous unexploited field for cigarette consumption, but that we may expect a mathematical increase as the younger generation reaches the other side of 40". It is unquestionable that present per capita consumption represents in no sense the limit of growth in cigarette smoking. This industry, therefore, in all probability will continue to be a major source of income to the federal government.

<sup>(\*)</sup> By comparing the years of 1931 and 1932. See Table I this chapter.

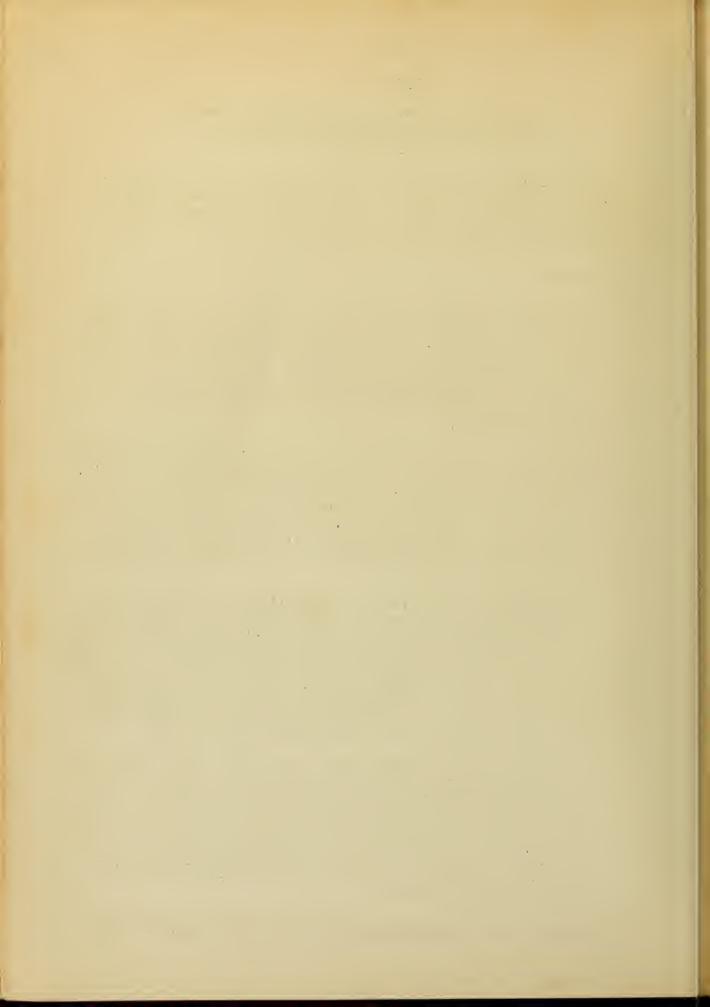


TABLE I

Receipts from Taxes on Major Classes of Tobacco Products For Fiscal Years ended June 30th, 1910, 1915, 1920, 1925 to 1935 inclusive, and July 1 to December 31,1935.

		· Clarat fi mina a	o-myo adod	in thousands of	dollore
•		: (money lightes		in thousands of	uoliais)
D:7	T			Tobacco	·
Fiscal:	Large	: Small :	Snuff	: Chewing &	: Total 2/
Years:	Cigars	: Cigarettes:		: Smoking	:
1910 \$	21,420	\$ 7,921	\$ 1,920	\$ 26,210	\$ 58,118
1915 $\psi$	21,174	20,925	2,387	32,198	79,957
		The state of the s			•
1920	55,424	151,262	6,949	74,664	295,809
1925	43,347	225,032	6,753.	66,922	345,247
1926	38,319	254,825	6,918	67.,711	370,666
1927	23,544	278,928	6,907	65,070	376,170
1928	22,879	301,752	7,461	62,774	396,450
1929	22,548	341,951	7,127	61,159	434,444
1930	21,141	359,816	7,542	60,098	450,339
1931	18,025	358,915	7,190	58,377	444,276
1932	14,207	317,533	6,846	58,030	398,578
1933	11,305	328,418	6,405	55,450	402,739
1934	11,633	349,662	6,788	55,298	425,169
1935	11,693	385,459	6,511	54,372	459,178
First	11,000	000, 400	0,011	07,012	±00,110
half of	0.550	005 504		05.453	0.45 53.0
1936 1/	6,536	207,724	3,124	27,471	245,710

<sup>1/</sup> July 1, 1935 to December 31, 1935

Source: Annual Reports of the Commissioner of Internal Revenue.

<sup>2/</sup> Includes also receipts from taxes on: Small Cigars, Large Cigarettes, Cigarette Papers and Tubes, Special Taxes, and Miscellaneous Collections.



In 1914, revenue from tobacco products represented 10.9% of the total revenue receipts of the United States Government; and in 1935, 12.1% (\*).

By further reference to Table I in Appendix 4, the proportion of income to the government from tobacco as compared to that from income taxes, liquor and other manufacturers' excise taxes, brings the contribution of this industry into strong relief. No other industry approached the tobacco manufacturing industry in revenue receipts.

The tax on motor vehicles, complete or parts, and on lubricating oil and gasoline, together, amounted to 266 million dollars for the fiscal year of 1935, as compared with 459 millions from tobacco. Liquor taxes in the same fiscal year were 411 millions. Referring again to 1935, the percentage of tobacco tax collections to total internal revenue collections was 16.6%.

### B. ADDITIONAL TAX REVENUE FROM CUSTOMS RECEIPTS AND PROCESSING TAXES.

For the calendar year of 1934, customs receipts from tobacco, unmanufactured and manufactured, were 22 million dollars, or 7.3% of total calculated customs receipts. If this sum, together with 18 million dollars received from agricultural adjustment taxes (fiscal year) on this commodity be added to the excise for the fiscal year of 1934, the total tax paid by the industry exclusive of its contribution to income taxes is 465 million dollars, or 14.9% of the total revenue receipts of the United States Government for that period.

Receipts from tobacco agricultural adjustment taxes for the fiscal year 1935 were 36 million dollars. The calculated customs receipts for the calendar year of 1935 are not yet available. Considering the increase in receipts from excise taxes on tobacco products in 1935 (34 million dollars), the total contribution of the industry for that year to the tax income of the United States is, without question, considerably in excess of that of 1934.

### C. STATE TAXATION (\*\*)

At the present time there are not less than 17 states imposing a special tax on various tobacco products, all of them imposing a tax on cigarettes. This tax ranges from 10% of the retail price in the state of Georgia to  $5\phi$  per package of 20 in the state of Arkansas. Six of these 17 states impose a tax on the retail

<sup>(\*)</sup> See Table I, Appendix 4, snowing revenue receipts from tobacco and other sources for selected years from 1914 to 1935 inclusive. Table II, Appendix 4, shows changes in rates of taxation for the same period of years.

<sup>(\*\*)</sup>Based on information received from the Tobacco Merchants Association of the United States. See also Table 3, Appendix 4.

soles of smoking tobacco, three on chewing tobacco, and three on snuff.

The 1934 receipts from cigarette taxes and per capita cigarette siles in states taxing cigaretts alone are shown in Table 4 of Appendix 4.

The per capita consumption of cigarettes in the United States for the fiscal year of 1934 was 921. In comparison with this figure, the Tobacco Merchants Association of the United States estimated for the same year the per capita cigarette consumption (as of that date) in fifteen tobacco taxing states as \$31.4.

While states taxing tobacco products are frequently subject to heavy losses of revenue by bootlegging of cigarettes from adjoining states, there is no doubt that these fifteen tobacco taxing states, as a group, would show a larger per capita consumption without the additional state taxes imposed. Therefore, the imposition of these state taxes has a direct effect on the total number of cigarettes manufactured and consequently on the federal revenue from this industry. Sales taxes, both state and local, further complicate the problem.

### D. DISPARITY IN TAX METHODS

Since 1917, cigars have been subject to a graduated tax (per thousand) based on intended retail selling price (\*). Similarly, "large" cigarettes, weighing more than three nounds ner thousand, carry an excise higher than that on small cigarettes. Small cigars and both small and large cigarettes are taxed per thousand without reference to retail selling prices. Snuff, and smoking and chewing tobacco are taxed per pound. Whether for revenue purposes a graduated tax on classes of cigarettes should be considered -- whether such tax would benefit tobacco farmer, manufacturer, labor, and the volume of consumption -- cannot be determined by rule of thumb. Scientific determination of a taxing base must rest upon a full knowledge of many factors not heretofore disclosed to government -- such as effect on growers of leaf tobacco, costs of production, advertising expenditures, the relationship of labor costs to manufacturers! net selling price. Here again -- in the interest of producers and in the public interest -- is there need for organized research.

<sup>(\*)</sup> See Table II, Appendix 4; also Chapter V, The Cigar Manufacturing Industry.

## CHAPTER VIII

### POSSIBILITIES FOR RESEARCH IN THE TOBACCO INDUSTRY

### A. THE SCOPE OF RESEARCH IN THE TOBACCO INDUSTRY

Research in the Tobacco Industry has been confined to the relatively narrow limits established by the immediate objectives of the individual concerns which have undertaken independent projects for the solution of their problems, together with certain more general investigations conducted by agencies of the federal government. The lack of coordination in the different efforts that have been made makes it difficult to appraise the extent of the ground covered, or to obtain comprehensive, authentic data on the major problems of the industry as a whole.
The work that has been done failed to produce the type of information
necessary to the solution of certain industry-wide problems which are
comparatively new to the industry and to the economic and social structure of the country. Moreover, the experience of other industries which
have adopted broad-scale research programs indicates that there are advantages to be gained from such programs even in the field of individual management problems.

Prior to the depression, and during periods of large profits, industry in general paid little attention to problems involving the internal relationships of its various functional sub-divisions, or its external relationships with sources of supply, channels of distribution, and the general public. No realization existed of the integrated nature of these relationships, because the mechanism as a whole was working smoothly. It was only when difficulties occurred that maladjustments became apparent. The Tobacco Industry was no exception. The diversity of interest, and in some instances, the active antagonism of interest between the component elements of the Tobacco Industry has made it difficult to obtain cooperative action, even though the economic desirability of such action may have been apparent.

In recent years the problems of management have become increasingly broad in scope, with the result that a more comprehensive knowledge of all operating factors is essential to effective performance, including knowledge of certain trends and forces that may have presented no problems a few years ago. In the tobacco industry, there is good reason to believe that a well-planned program of general industrial research will not only yield tangible returns, but is also necessary to the successful guidance of the industry in the complexities of the economic, social, and political changes that have taken place and that have yet to take place.

It is impossible to enumerate all the specific areas in which research of this nature would prove valuable, but the following illustrations may indicate the extent of the territory open for exploration.

### B. THE FIELD FOR COORDINATED INDUSTRY RESEARCH

### 1. The Curing of Tobacco.

Bright Flue-Cured tobacco, as the name implies, is cured in the farmer's barn by radiated heat. In the process of curing, the temperature is under more or less accurate control, depending on the past experience and skill of the individual farmer. There is no attempt whatever at humidity control. Fine quality tobacco in the field may be ruined in the curing process.

This Unit has been unable to discover any attempt at scientific research on this important problem.

Burley and Maryland tobaccos are air-cured. The cigar types of tobacco are generally air-cured. The process of air-curing is carried on in the barn where the tobacco hangs and there is no application of artificial heat.

The open-fire method on the dirt floor of the barn is used on Virginia fire-cured tobacco and on certain types grown in Western Kentucky and Tennessee. Virginia sun-cured (Type 37) is racked in the field for curing.

While the cost of flue-curing is higher than that of the other methods employed, the quality of the tobacco is decidedly improved by that method. Its better grades command a higher price for domestic use in cigarettes and for export trade than any other type of Americangrown tobacco leaf.

Without question, proper research should result in a general improvement in the process of flue-curing. It is also of equal importance that research be used to determine what methods of during are best adapted to the other types, including cigar leaf. There is a real possibility of improving the quality average of the tobacco crop. With the present trends in foreign markets, and the particular danger of less demand for the lower grades, quality constantly assumes more importance to the farmer.

The general trend toward cigarette smoking, both at home and abroad, offers continuing opportunities for the use of mild American tobaccos. Burley represented (1934) 1.7% of the estimated value of leaf tobacco exported (\*). It is well with in the range of possibilities that an improved Burley might find considerable demand abroad.

Opportunity for research may be further illustrated in the case of cigar leaf, where the average large stocks of low grade leaf over-hanging the market might well be reduced by a more exact chemical determination of the factors governing quality.

<sup>(\*)</sup> Department of Commerce, Bureau of Foreign and Domestic Commerce, Tobacco Division, Bulletin No. 521, July 2, 1935.

### 2. Primary Leaf Market

In Chapter III on INTEGRATION WITH AGRICULTURE, under the topic of "The Auction and Loose-Leaf Market", there has been discussion of the problems developing from the short marketing season and the speed of sales, both of them detrimental to the price paid the farmer. The speed of sales also prevents close scrutiny of grades of leaf by buyers. Further research on these subjects, and a definite consideration of the other methods of marketing, far less satisfactory than the auction system, are of immediate interest to the Department of Agriculture and to manufacturers and exporters.

### 3. By-Products.

There is great need of experimental work in the manufacture of tobacco by-products.

### 4. The Aging of Tobacco.

Immediately after its purchase on the warehouse floor, tobacco is put "in order". It is dried and a definite amount of moisture added prior to packing in hogsheads for storage. Twice each year, the tobacco "sweats" in the hogshead, once early in the summer and again in the early fall. This sweating process may take place for three successive years. A considerable amount of to bacco used in manufacture both here and abroad is aged for improvement in quality in this way and for this period.

A considerable amount of work has been done in the Department of Agriculture, sometimes jointly with state institutions, covering the chemistry of the various types of tobacco leaf in its green and dried forms, but scientific research to determine the exact character of the sweating process as tobacco ages in the warehouses of the manufacturers and leaf dealers is decidedly lacking.

The inventories of the Big Three are said to approximate \$300,000,000. Other than the insurance feature of stocking tobacco against an occasional crop of poor quality or small size, the amounts of these inventories are due to the aging of tobacco for improvement in quality. It is not improbable that an exact determination of the changes taking place in the natural process of sweating would permit a real reduction in stocks on hand, by shortening the period now required for aging. Distinct changes of this character have been common in other industries. The possibility of temporary curtailment of leaf purchases must be recognized in this connection.

### 5. <u>Distribution Problems</u>

In that section of Chapter I entitled "Cigarette Selling Prices and Policies", the influence of the manufacturer on specific problems of of distribution has been outlined. The jobbers have emphatically expressed their belief that cooperation with manufacturers is essential to the solution of certain present difficulties. It would be distinctly unfair, however, to lay all the troubles of tobacco distribution at the door of the manufacturer.

A joint research consideration of this problem includign all distributing groups and the manufacturers would, without question, bring out information not now available, and of great value to manufacturers as well as distributors. There is no more important field for cooperation between branches of the Industry. The wholesalers are ready and waiting.

### 6. Labor

The mechanization field study (\*) conducted by this Unit shows wide variation in technological displacement. The problem of the relation of labor standards in this industry to those in other industries in the same areas needs further elucidation.

### 7. Foreign Markets (\*\*)

The need for study of foreign markets for tobacco is evident. This Unit, working in cooperation with the Tobacco Division of the Bureau of Foreign and Domestic Commerce, has been of some assistance in pointing out to the Tobacco Association of the United States further possibilities of foreign markets, through detailed analyses of four European and four South American countries.

### 8. Relationships with Government

Not only for the purpose of presenting an accurate picture of the Industry in connection with taxation, but also in view of the desirability of working out an orderly and practical adjustment of relationships between government and industry, it is necessary that industry be in a position to define accurately and in concrete terms its problems and requirements. The uncertainties which have existed for many years in the past with respect to what is permitted and what is forbidden under the Antitrust Laws, the question of the extent to which the federal government may be of assistance to industry in the solution of its problems, and the probability that further industrial legislation will demand the fullest authentic industrial information, -- these considerations make it evident that for its own protection, or for more positive benefits to be received through cooperation with the federal government, industry is under the necessity of examining its position in as comprehensive a manner as possible. Many of the mistakes made under NRA which were detrimental to the interests of industry, might have been avoided had adequate research programs been established for some time before the advent of the codes.

As stated in the Chapter on Taxation, tobacco tax collections represented 16.6% of total Internal Revenue collections in 1935. When compared with this contribution of the industry to government income, the amounts expended in the tobacco divisions of the Bureau of Agricultural Economics, Department of Agriculture and of the Department of Commerce, are pitifully small. The type and character of their work, insofar as it goes, is excellent. But the limitations imposed upon them by lack of available funds are most evident. Thorough exploration of all problems pertinent to the industry not only for the benefit of

<sup>(\*)</sup> See Chapter II, Section C.

<sup>(\*\*)</sup> See Chapter IV, Foreign Trade in Leaf Tobacco. 10691

government but for the grower and manufacturer, require greater appropriations in the public interest.

### C. - ASSOCIATIONS IN THE INDUSTRY

1. Functional Organization and the Relationship of the Associations to Research.

The major functional divisions of the Tobacco Industry are represented by trade associations whose objectives and activities are based upon the common interests of each group. Before proceeding to analysis of the method by which a joint program of general industry research may be established, it is necessary to outline briefly the existing status of trade association organization, in order to indicate, first, the specific fields of interest represented, and second, the mechanism through which research may obtain sponsorship, direction, and support.

(a) National Association of Auction and Looseleaf Tobacco Ware-house Associations.

The association of the Auction and Looseleaf Warehouse group is concerned today with retaining as much as possible of the benefits of the NRA code period.

(b) The Tobacco Association of the United States.

The membership of this association is composed largely of dealers in smcking, cigarette, chewing and snuff types of tobacco, and warehousemen, with a sprinkling of bankers, steamship companies, railroads, and storage and forwarding companies. The headquarters of the association shift with the place of residence of its president.

Because of the fact that the larger American manufacturers have their own leaf buying organizations, the primary interest of this association is in the export trade.

The Tobacco Association of the United States has never been conspicuously active, but in 1935, because of the drastic decrease in demand for American leaf in the Far East, the association became more active and committees were appointed to study this and similar problems.

(c) Retail Tobacco Dealers of America, Inc.
Mational Association of Tobacco Distributors, Inc.

Both wholesalers and retailers have associations under effective leadership. They developed, during the code period, into organizations of valuable help to their respective groups. They have continued their activities and have made progress in a study of their problems.

(d) Tobacco Merchants Association of the United States.

For many years the Tobacco Merchants Association of the United States has represented the interests of the Cigarette, Snuff, Chewing and Smoking Tobacco Manufacturing Industry

### (e) Association of Cigar Manufacturers and Leaf Tobacco Dealers

It will be noted that this group contains dealers interested in cigar type tobacce leaf and cigar manufacturers. This association was very active during the NRA code period. Not long before the termination of the AAA, conferences between that administration and a group representing this industry showed them to be far apart on such subjects as parity prices, processing tax levels, and quality of cigar leaf stocks on hand.

The growth of mechanization and the steady trend toward concentration of production among a small number of corporations has naturally developed friction between machine-made and hand-made cigar manufacturers, insofar as common association interests are concerned.

### D.- CONCLUSION

The weakness of these associations, individually and as a group, is evident from the fact that there is no common council table. Trade associations would be the natural channel, in self interest, for the research indicated and for working out a common understanding of the broad problems underlying the industry.

The outstanding need of the tobacco industry is for the establishment of a general program of research as broad and thorough and as disinterested as has been suggested in these pages, in order to place the industry on a scientific foundation. A way must be found to bring all the elements together in the public interest.

What better solution of the problem could there be than the establishment of a Tobacco Research Foundation, to undertake not only the major problems, some of which have been here so briefly outlined, but all the hundred and one auxiliary problems that organized research usually finds present. Science, economics, and business would thus find a common meeting ground with government, grower, manufacturer, distributor. Exact knowledge would displace rule of thumb methods; the multitude of dark corners need illumination.

Into this research would go questions of taxation, problems of growing, curing aging and grading of tobacco, efficiencies of production methods, technological explorations and determinations, distribution and advertising problems, the development at home and abroad of new markets and the reviving of old, the charting of future trends and future dangers that research foresight might point the way to avoid. These are the rough essentials of the work of a Tobacco Research Foundation.

It is almost inconceivable that an industry of this importance should have gone so many years without some form of coordinated research.

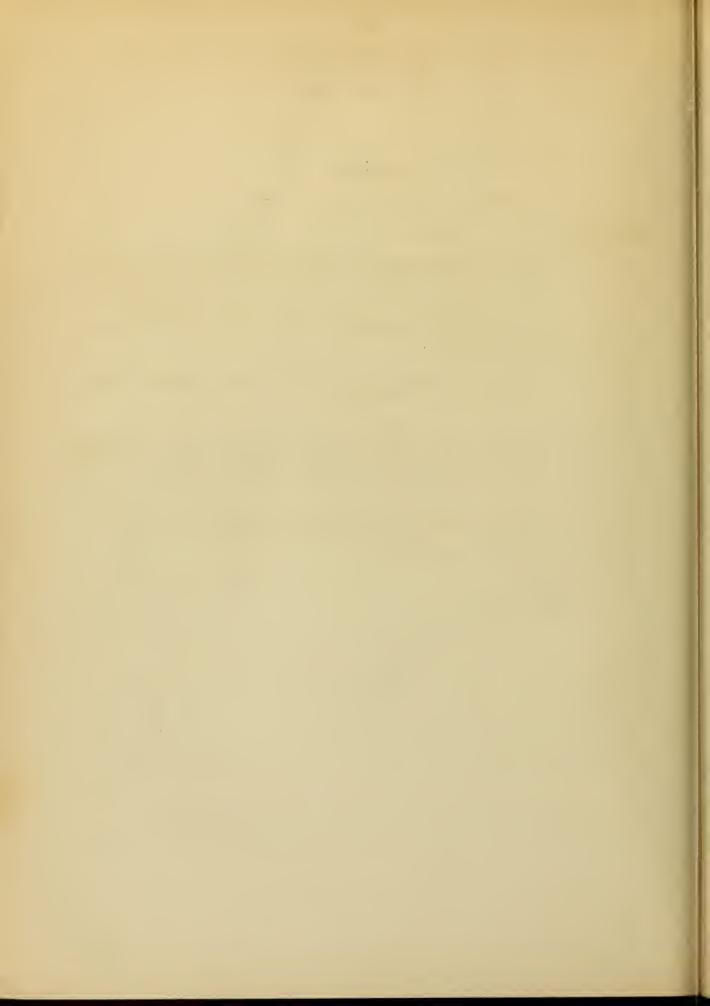
### APPENDICES

### THE TOBACCO STUDY

### Appendix 4

(Taxation, Revenue Receipts, etc.)

Pable No.	<u>Title</u>
1	Total Revenue Receipts of the United States Government; Total Internal Revenue Collections, (showing revenue from tobacco taxes and other major groups); and Total Customs Receipts, (showing import duties on tobacco and all other commodities). For Selected Years between 1935 and 1914.
2	Changes in Rates of Taxation on Tobacco Products from 1914 to 1935 (inclusive).
3	States Taxing Cigarettes and their rates of taxation States Taxing Smoking Tobacco and their rates of taxation States Taxing Chewing Tobacco and their rates of taxation States Taxing Snuff and their rates of taxation.
4	Receipts from Cigarette Taxes and Per Capita Cigarette Sales in States Taxing Cigarettes Alone
5	List of Statements



TOTAL REVENUE RECEIPTS OF THE UNITED STATES GOVERNMENT; TOTAL INTERNAL REVENUE COLLECTIONS, (SHOWING REVENUE FROM TOBACCO TAXES AND OTHER MAJOR GROUPS); AND TOTAL CUSTOMS RECEIPTS, (SHOWING IMPORT DUTIES ON TOBACCO AND ALL OTHER COMMODITIES).

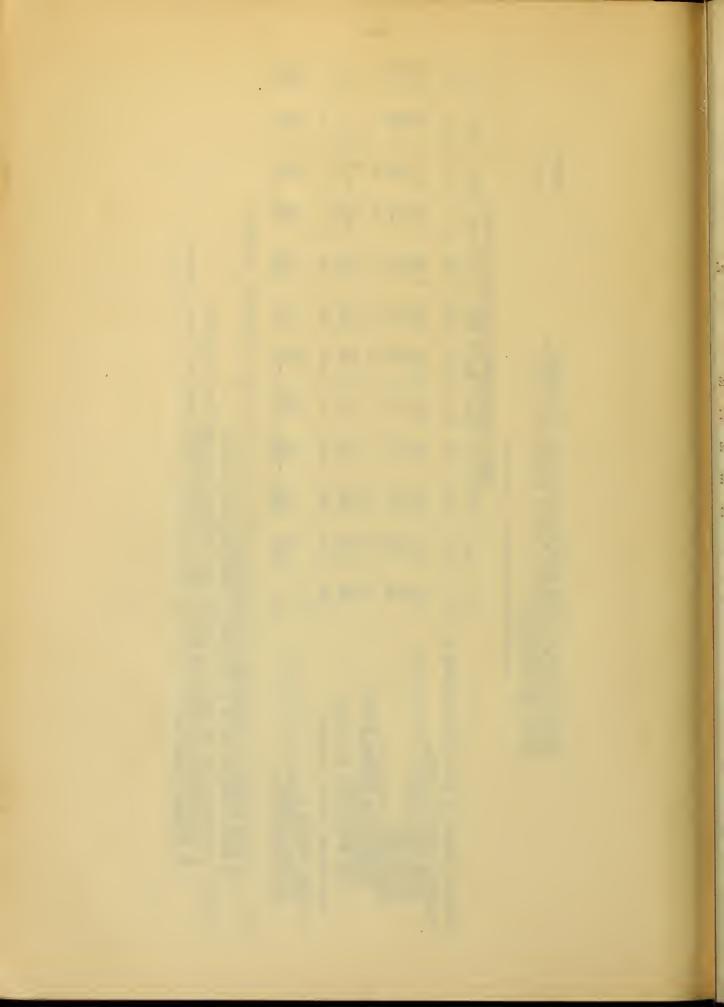
APPENDIX TABLE 1.

# FOR SELECTED YEARS BETWEEN 1935 AND 1914

<u>1</u> 914	732	61 13 80 226		380	27 256 283
_7 <u>1</u> 91	1,122	359 103 284	1 1 1	809	30
H. 1919	4,653	2,601 473 206 483	49	3,850	27 210 237
1920 1	6,703	3,957 687 296 140	183	5,407	33 325 325
NS OF DC	5,584	3,228 741 255 82	115	4,595	36 292
N HILLIO	3,748	1,691 366 309 30	1 <sup>44</sup>	2,622	36 530 566
RESSED I	3,751	1,974 276 370 26	138	2,836	38 590
VES EXP	3,905	2,410 450 450 11	17	3,040	40 452 462
C A L -	1,982	1,057 83 398 9		1,558	23. 23.7 25.9
(M) 1933 - 1933	2,042	747 179 403 43	123	1,620	262 263 283
	3,112	817 410 425 259	228 91 390	2,301	22 279 301
1935	3,790	1,099 462 459 411	189	2,773	m
	(A) REVENUE RECEIPTS OF UNITED STATES GOVERNMENT $rac{1}{2}$	(B) INTERNAL REVENUE COLLECTIONS:	MANUFACTURERS EXCISE TAXES; MOTOR VEHICLES, (Complete or parts) LUBRICATING OIL AND GASOLINE OTHER MANUFACTURES TOTAL MANUFACTURES' EXCISE TAXES	TOTAL INTERNAL REVENUE COLLECTIONS	(c) CUSTOMS RECEIPTS: 2/ TOBACCO, (Unmanufactured and manufactured) ALL OTHER COMMODITIES TOTAL CUSTOMS RECEIPTS

(A) COMBINED STATEMENTS OF THE RECEIPTS AND EXPENDITURES, BALANCES, ETC., OF THE UNITED STATES TREASURY DEPARTMENT. (B) ANNUAL REPORTS OF THE COMMISSIONER OF INTERNAL REVENUE. (C) ANNUAL STATISTICAL REPORTS OF THE BUREAU OF FOREIGN AND DOMESTIC COMMERCE. SOURCE:-

INCLUDES COLLECTIONS FROM TAXES ON; CAPITAL STOCK, ESTATE AND GIFT, STAMP, AND MISCELLANEOUS. CUSTOMS RECEIPTS ON CALENDAR YEAR BASIS FOR YEARS 1919 to 1934 INCLUSIVE. CUSTOMS RECEIPTS FOR THE CALENDAR YEAR 1935 WERE NOT AVAILABLE AT TIME OF PREPARATION OF THIS STATEMENT. ON WARRANTS ISSUED BASIS. الجلالوات FOOTNOTES:-



### APPENDIX 4

### TABLE II (\*)

# CHANGES IN RATES OF TAXATION ON TOBACCO PRODUCTS FROM 1914 to 1935 (inclusive)

	1926	1919	1917	1914	
	(A)	(B)	(C)		
Large Cigars:					
Class: A (Per thousand)	\$2.00	\$4.00	\$3.00 )		
B 11 11	3.00	6.00	4.00 )		
C in in	5.00	9.00	6.00)	3.00 (D)	
D 11 11	10.50	12.00	8.00 )		
E 11 11	13.50	15.00	10.00 )		
Small Cigars (Per thousan	d) .75	1.50	1.00	.75 (E)	
				4-1	
Large Cigarettes (Per thousan	d) (No chan	ge)7.20	4.80	3.60 (E)	
2 77 01 11 (5	~\ /:- ·	\ = 00	0.05		
Small Cigarettes (Per thousan	d) (No chan	ige)3.00	2.05	1.25 (E)	
Snuff (Per pound)	/NTb		1 77	.08 (E)	
Snuff (Per pound)	(No cush	ige) .18	13	.UO (E)	
Chewing & Smoking(Per pound) (No change) .18 .13 .08 (E)					
(1) 00.					

Dates that rates became effective:

- (A) From March 29, 1926
  - (B) From February 25, 1919
  - (C) From November 2, 1917
  - (D) From July 1, 1901
  - (E) From July 1, 1910

Revenue Acts as enacted by the Senate and the House of Representatives of the United States of America.

10691

<sup>(\*)</sup> Source:

### APPENDIX 4

### TABLE III

# STATES TAXING CIGARETTES AND THEIR RATES OF TAXATION

State	Tax Rate			
Alabama	l cent for each 5 cent or fraction retail selling price.			
Arizona	2 cents on each 20 cigarettes or fractional part thereof.			
Arkansas	\$2.50 per thousand			
Georgia	10 per cent of the retail price			
Iowa	l mill on each small cigarette 2 mills on each large cigarette			
Kansas .	2 cents on each 20 cigarettes or fractional part thereof.			
Louisiana	2 mills on each cigarette sold			
Mississippi	l cent for each 5 cent or fractional part thereof of the retail selling price.			
North Dakota	$1\frac{1}{2}$ mills on each small cigarette 2 mills on each large cigarette			
Ohio	l cent on each 10 cigarettes or fractional part thereof.			
Oklahoma	\$1.50 per thousand.			
South Carolina	l cent for each 5 cent or fractional part thereof of the selling price.			
South Dakota	lanills on each small cigarette 4 mills on each large cigarette			
Tennessec	For cigarettes intended to retail for not over 1 cent each - 1/5 cent on each cigarette. For cigarettes intended to retail for over 1 cent each - 20 per cent.of the intended retail sales price.			

10691

Texas

\$1.50 per thousand for small cigarettes. \$3.60 per thousand for large cigarettes.

Utah

1 mill on each small cigarette
2 mills on each large cigarette

Washington

1/20th of 1 cent for each cigarette unless intended retail sales price (before tax) shall be more than 1 cent each which event tax shall be 10 per cent of intended retail sales price.

Source: Tobacco Merchants Association of the United States.

# STATES TAXING SMOKING TOBACCO AND THEIR RATES OF TAXATION

State	Tax Rate
Alabama	l cent for each 5 cent or fraction retail selling price.
Arizona	l cent per ounce or fractional part thereof.
Louisiana	l cent for each 5 cent or fractional part thereof of retail selling price.
Mississippi	l cent for each 5 cent or fractional part thereof of the retail selling price.
South Carolina	l cent for each 5 cents or fractional part thereof of the retail selling price.
Tennessee	10 per cent of the intended retail sales price of each package of tobacco.

Source: Tobacco Merchants Association of the United States.

# STATES TAXING CHEWING TOBACCO AND THEIR RATES OF TAXATION

State Tax Rate

Arizona Fine Cut Chewing Tobacco and

Scrap Chewing Tobacco - 1 cent per ounce or fractional part thereof. Plug or Twist Tobacco  $\frac{1}{2}$  cent per ounce or fractional

part thereof.

South Carolina l cent for each 3 ounces or frac-

tional part thereof.

Tennessee 10 per cent of the intended retail

sales price.

Source: Tobacco Merchants Association of the United States.

STATES TAXING SMUFF AND THEIR RATES OF TAXATION

<u>State</u> Tax Rate

Arizona l cent per ounce or fractional

part thereof.

South Carolina l cent for each three ounces

or fractional part thereof.

Tennessee 10 per cent of the intended re-

tail sales price.

Source: Tobacco Merchants Association of the United States.

## APPENDIX 4

# RECEIPTS FROM CIGARETTE TAXES AND PER CAPITA CIGARETTE SALES IN STATES TAXING CÍGARETTES ALONE

	ANNUAL MIDYEAR			
	(U.S. BUREAU OF THE CENSUS)	RECEIPTS CÂL. YEAR 1934	NO. OF CIGARETTES TAX PAID BASED ON TAX RATES IN FORCE	TAX PAID CIGARETTES PER CAPITA
ARKANSAS	1,876,000	\$ 915,154.02	366,061,608	195.1
IOWA	2,485,000	1,259,969.71	1,259,969,710	507.0
KANSAS	1,905,000	678,209.36	678,209,360	356.0
NO. DAKOTA	688,000	238,113.54	158,742,360	230.7
OHIO	6,836,000	* 5,417,399.52	5,417,399,520	792.5
SO. DAKOTA	705,000	398,396.11	265,597,407	376.7
TEXAS	6,073,000	* 4,235,908.81	2,823,939,207	465.0
UTAH	520,000	*235,415.01	235,415,010	452.7
	21,088,000	\$13,378,566.08	11,205,334,182	531.4

- NOTES: (a) Arkansas also taxes cigars, but the reports of the State authorities show separately the receipts from cigars and cigarettes, and the above figure represents the receipts from "cigarettes" alone, as reported by the State authorities.
  - For the purpose of ascertaining the total sales in Ohio, Texas and Utah, we have used the gross collection figures before deducting the discount allowed on stamps. The actual collections after deducting the discounts on stamp sales were \$4,881,173.48, \$4,026,292.61 and \$215,343.98, respectively.

X North Dakota also taxes snuff and cigarette papers, but the reports of the State authorities show separately the receipts from these items and the above figure represents the receipts from "cigarettes" alone, as reported by the State authorities.

THE EFFECT OF STATE CIGARETTE TAXES UPON CONSUMPTION POPULATION ANNUAL MIDYEAR

1 01 011 111110	An articular to the state of th		
ESTIMATE 1	1934 PER CAP	ITA CIGA- TO	TAL CIGARETTE
_ (U.S. Bu	REAU RETTE C	ONSUMPTION (	CONSUMPTION
OF THE CE	MISUS) 19	34	1934
United States 126,42	25,000 99	3.6 125,6	617,892,399
X 15 Tobacco-Taxing States <u>35,81</u>	<u> 15,000</u> * <u>53</u>	1.4 19,0	032,091,000
33 Non-Tobacco-Taxing States 90,61	10,000 117	6.3 106,	585,801,399
<del></del>			

- NCTES: X This includes the States taxing cigarettes alone, as indicated in the above statement, plus the following additional States in which tobacco taxes were in force in 1934; viz., Alabama, Arizona, Georgia, Louisiana, Mississippi, South Carolina and Tennessee. In these States other tobacco products besides cigarettes are taxes, and the revenue receipts therefrom being grouped together, it is impossible to obtain figures showing the collections from cigarettes alone. In fact, in Arizona and South Carolina items other than tobacco products are included in their tax receipts.
  - \* Average for cigarette taxing States as shown above. It was assumed, however, that the 7 States mentioned in the foregoing note, where figures regarding revenue from cigarettes alone are unavailable, would show the same average consumption as that registered in the 8 States listed in the above table, as indicated by the figures which they furnished to us.

Source: Tobacco Merchants Association of the United States

#### APPENDIX 4

### TABLE V

Following is a list of statements prepared from various sources. Portions of the basic data contained in these statements have been used in preparation of certain Tables and percentages appearing in the text.

### SECTION NO. 1

### STATEMENT NUMBER

- Comparison of the Rates of Taxation on Corporation Income; Capital Stock; Tobacco Products; and Manufacturers' Excise on Selected Commodities. For Calendar years 1935 to 1912 inclusive. (2 sheets)

  Original work sheets only.
- 105 Comparative Statement showing Internal Revenue Collections, by principal sources. For Fiscal years ended June 30th, 1934 to 1912 inclusive.

Original work sheet only.

A synopsis of Federal Income and Profits Tax Rates, Estate and Gift Tax Rates, Credits and Exemptions, covering Revenue Acts of 1909 to 1935. (10 sheets)

One photostat copy only.

### SECTION NO. 6

- Tobacco Unmanufactured; Manufactures of Tobacco, and All Merchandise imported; including entries for consumption and withdrawals from Customs Warehouses for consumption, showing quantity, var amount of duty collected, value per unit of quantity, and uivalent ad valorem.

  Original work sheet only.
- Comparative statement showing Receipts, (Warrants Issued Basis), of United States Government, by principal sources, for fiscal years ended June 30th, 1911 to 1934 inclusive.

Original work sheet only.

### SECTION NO. 4

STATEMENT NUMBER	SECTION NO. 4
2	Monthly receipts from taxes on Tobacco Products, for the years 1935 to 1926 inclusive.  Original work sheet only.
3	Internal Revenue tax receipts on Tobacco Products imported from the Philippine Islands, by classes of Tobacco Products, for the fiscal years ended June 30th, 1934 to 1911 inclusive.  Original work sheet only.
	Internal Revenue tax receipts on Tobacco Products imported from Puerto Rico, by classes of Tobacco Products, for the fiscal years ended June 30th, 1934 to 1911 inclusive.  Original work sheet only.
6	Receipts from Internal Revenue Taxes on Tobacco Products, and per capita tax based on the annual midyear estimated population of the continental United States, for the Fiscal years ended June 30th, 1926 to 1934 inclusive.  Original work sheet only.

### APPENDIX 5 - TOBACCO STUDY

#### TABLE I

### SPECIAL CANVASS OF MANUFACTURERS OF FIVE-CENT CIGARS

### Average Cost of Production

This report has been compiled from returns received from (11) representative manufacturers of five-cent cigars, selected by the National Recovery Administration.

The total value of five-cent cigars produced in the last accounting year by the ll establishments was \$35,270,823 representing production of approximately 1,049,000,000 cigars, or 24.4 per cent of all production in 1933.

Machine made cigars

.30

Material	Cost delivered at	Quantity required	Cost per
	factory	per 1000 cigars	1000 cigars
Wrapper	\$2.847 per 1b.	1.888 lbs.	\$5.088)
Binder	.511 " "	5.123 "	2.416) \$14
Filler	419 " "	17.923 "	7.294)
		_	1.518
Labels			.291
Cellophane			495
	•••••		.210
	•••••		.074
21 0 0 0 0			
Total material	• • • • • • • • • • • • • • • • • • • •		1/ 17.315
	waste		428
			CONTRACTOR OF THE PARTY OF THE
Net material			16.887
Labor			
	\$.114 per 1b. 1	.888 lbs.	.193
Strippers, binder.			.216
	233 " " 17		4.37
Average for st	ripping		1/ .829
2,020,80 202 10			<u></u>
Selectors			•312
	operators 4		2.874
	phaning		.099
	ers		(2)
	••••••		.504
Other		• • • • • • • • • • • • • • • • • • • •	1.133
			- /
Total labor	• • • • • • • • • • • • • • • • • • • •	• • • • • • • • • • • • • • • • • • • •	<u>1</u> / 4.175
W. 22			
Miscellaneous and bur	rden		
Parral to			.960
Maintenance			.253

### Miscellaneous and burden continued

				cigars
Lubrication Depreciation Miscellaneous Other overhea	ad	•••••	\$ <u>3</u> / <u>1</u> /	.121 .097 .614 .5171 2.536 4.616
Material Lapor	neous and burden3/	6.86 <b>7</b> 4.175		
	Total \$2	5,678		
Average whole	esale selling price \$3	3.56		
Outnut		Average outp		
Strippers, b: Strippers, f: Machine opera Banding and	rappers (lbs.) inder (los.) iller (lbs.) ators (cigars) cellophaning (cigars) ars)	2.663 22 5.35 49 8.3 71 403 3599 2778 26617 851 7634	.625 .9	
<u>Combinat</u> :	on hand and machine m	ade cigars		
Material	Cost delivered at factory	Quantity req		Cost per 1000
Wrapper Binder Filler Boxes	.44 11 11	2.75 1 5.617 16,333	11 11	\$ 4.320 2.376 6.137 1.963

Labels .....

Wrapping material .....

Less credit for waste.....

Cost per

.388

.710

(2)

(4)

. 385.

16.244

L	a	b	o	r
			_	

រីទ្ធភិបិ L			
Strippers, wrappe Strippers, binder Strippers, filler	$\overline{2}/\dots$		
Average for	stripping	••••••	\$ .502
Selectors  Bunch breakers  Rollers  Packers  Banding and cello	phaning		(2) •892 •652 •767 (2) (2)
	Total labor		1/ 7.502
iscellaneous and bure	den		
Not reported separ	rately for this me	ethod of production.	
output per hour and pe	er doy <u>2</u> /		
	Summary of hand a	and machine made cia	gars
Labo: Misc	rial rellaneous and burd Fotal	7.50 den (4	<u>4)</u>
Average, wholesale	selling price	\$32.42	2
Material	Hand made cigars Cost delivered	Quantity required	Cost per
	at factory	per 1000 cigars	1000 cigars
Labels	.618 " " .378 " " Total mater	5.267 lbs. 12.063 "	\$ 3.867) 3.252)\$11.52 4.397) 1.967 .417 1.040 (2) (4)  1/ 15.156 (2)
Net material		• • • • • • • • • • • • • • • • • • • •	1/ 15,006

#### Labor:

Strippers, wrapper ) Strippers, binder ) Not reported separately. Strippers, filler )	
Average for stripping	\$ .453
Selectors	.587
Bunch breakers	3.093
Rollers	5,518
Packers	1.10
Banding and cellophaning	(2)
Tubing and labeling	(2)
Other	(2)
Total labor	1/ 11.658

### Miscellaneous and burden

Not reported.

### Output

Not reported.

Summary of hand cigars
Material\$15.006
Labor 11.658
Miscellaneous and burden (4)
Total <u>3</u> \$26.664

Average wholesale selling price ..... \$33.277

1/ Because of difference in method of production or reporting, average of totals is shown and not the average of items. For example, bands are not used in some cases.

2/ Can not be shown without disclosing data for individual establishments.

3/ Exclusive of advertising, selling and shipping expenses.

4/ Not reported.

#### Source:

Special survey by Census of Manufactures, 1933, made at request of National Recovery Administration. National Recovery Administration. National Recovery Administration of Tobacco Study Unit, Labor.

# APPENDIX V

### TABLE II

The following list indicates unpublished materials on which Chapter V of this report was based, and which are now on file as "Work Materials", Tobacco Industry Study Unit, Industries Studies - Division of Review, National Recovery Administration.

- A. Special survey by the Census of Manufactures made in 1933 at the request of the National Recovery Administration. The survey covered 52,273 wage earners. The following information was developed:
  - (1) Cigar workers number as of July 1, 1933, classified as piece-workers of timeworkers and as to sex, by States, and average weekly payroll for the period January to July 1933, by States.
  - (2) Cigar workers Numbers of pieceworkers as of July 1, 1933, classified as to machine or hand, sex, hours per day, days per week, and number of shifts per day, by States.
  - (3) Cigar workers numbers of packers as of July 1, 1933, classified as to machine or hand, sex, average hourly wage rates, average hours per day, and average days per week, by States.
  - (4) Cigar workers selectors, information similar to last above.
  - (5) Cigar workers miscellaneous, information similar to last above.
  - (6) Piecework rates per 1,000 cigars produced and average earnings per week as of July 1, 1933, for men classified as to machine or hand workers and class of cigar produced, by States.
  - (7) Same as last above for women pieceworkers.
  - (8) Frequency distribution of numbers of male machine piecework employees and numbers of female machine piecework employees by range of "low" rates paid per 1,000 Class "A" cigars produced.
  - (9) Breakdown of cost of production of five-cent cigars, machine made, hand-made, and composite hand and machine made. Included as Table I of this Appendix.
- B. Production statistics on the Cigar Manufacturing Industry as a whole for the period 1926 to 1934 from the Bureau of Internal Revenue. This is included in Appendix I.
- C. Production statistics for certain selected corporation groups in the Cigar Manufacturing Industry for the period 1926 to 1934, obtained from the Bureau of Internal Revenue.
- D. Financial information concerning certain selected corporation groups in the Cigar Manufacturing Industry for the period 1926 to 1933, obtained from the Bureau of Internal Revenue.

E. "Investigation of Cigar Manufacturing Industry in re Establishment of of a Code of Fair Competition" by Rossmore, Robbins and Co., Inc., Certified Public Accountants, N. Y. C. November 3, 1933.

This study was made for a committee of cigar manufacturers seeking a Code. It was based on (a) answers to questionnaries sent to all cigar manufacturing members of the Associated Cigar Manufacturers and Leaf Tobacco Dealers, and to certain non-member cigar manufacturers, and (b) figures published by the Bureau of Internal Revenue. The answers received covered manufacturers producing about 51 per cent of the total number of cigars produced in 1933. The principal coverage (91 percent) was among machine manufacturers. Information is presented concerning number of emoloyees, wages paid, hours worked, per cent capacity in operation, net tangible assets, weekly payrolls, and production costs. Tables containing the following information are included:

- (1) Total number of cigars by classes produced by reporting concerns, year 1929, year 1932, three months ending July 31, 1929, 1932, and 1933.
- (2) Net sales value of cigars produced by reporting concerns, by classes and by periods as indicated in last above.
- (3) Gross sales price per 1,000 machine-made cigars, total discounts allowed, and net sales price, by classes and by periods as indicated in (1) above.
- (4) Tobacco consumption of reporting concerns, by types, for year 1929, year 1932, and three months ending July 31, 1933.
- (5) Total pounds of unstemmed tobacco used per 1,000 machine made cigars, by classes of cigars, for three month periods ending July 31, 1929, 1932, and 1933.
- (6) Average number of employees of various types in hand factories and machine factories reporting, periods as indicated in (1) above.
- (7) Average number of cigar makers, operators and other factory employees, hand or machine, by classes of cigars produced, for periods as indicated in (1) above.
- (8) Average wage per hour and per week and average hours worked per week for various classes of employees, hand and machine, for periods as indicated in (1) above.
- (9) Average total wage cost per 1,000 cigars produced, average wage per hour and per week, and average hours per week of cigar machine operators and cigar makers, by class of cigar produced and by periods as indicated in (1) above.
- (10) Average wage per hour and per week and average hours per week of all workers at factory except cigar makers, cigar machine operators, strippers, or other processors, hand and machine, by classes of cigars produced and for periods as indicated in (1) above.

- (11) Production costs per 1,000 machine-made cigars produced during three months period ending July 31, 1933 by class of cigars produced, elements of cost in detail.
- (12) Information similar to last above for hand-made cigars.
- (13) Comparative composite production costs per 1,000 machine-made five-cent long filler cigars for May 1933 and September 1933, based upon certified data from four leading manufacturers.
- F. "Statistical Survey of the Hand-Made Cigar Manufacturing Industry" by S. D. Liedesdorf & Co., N. Y. C., dated November 11, 1933.

This study was made for a committee of hand-made cigar manufacturers seeking a Code. The report was based on (a) a questionnarie sent to 239 hand-made cigar manufacturers, (b) replies to telegrams sent to 75 companies and supplementing the previous questionnarie, (c) replies to questionnaries sent to its members by the York County Cigar Manufacturers Association, and (d) government statistics concerning the Cigar Manufacturing Industry. The coverage of the study was estimated as 40 per cent of all hand-made cigar manufacturing concerns producing more than 1,000,000 cigars per year, 45 per cent of all hand-made cigar manufacture, and 45 per cent of all employees engaged in hand cigar manufacture. The orincipal coverage was in the York County, Pennsylvania, district. The following information was presented:

- (1) Frequency distribution of workers by hours worked per week for a typical week in June 1933.
- (2) Frequency distribution of cigar-makers as to weekly wages during a representative week in June 1933.
- (3) Frequency distribution of rollers of Class "A" cigars as to hourly earnings during a representative week in June 1933.
- (4) Information similar to last above for bunchers.
- (5) Frequency distribution of rollers as to number of cigars rolled per hour during a typical week in June 1933 for the United States, the United States exclusive of York County, Pa., and for York County, Pa., by classes of cigars produced
- (6) Information similar to last above for bunchers.
- (7) Information similar to last above for hand cigar-makers.
- (8) Piece rates paid rollers and bunchers during a representative week in June 1933, by class of cigar produced.
- G. "Supplementary Schedule of Information Supplementing Complaint of Code Authority for the Cigar Manufacturing Industry..(to the NRA).. against Unlimited Importation of Cigars Manufactured to the Philippine Islands", dated September 12, 1934. Contains information concerning

production, production costs, and wholesale prices of Philippine Islands and American made cigars during the period 1932 to 1934, and summarizes the position of the cigar manufacturers in the United States.

- H. Statistics on hand rollers of two-for-five-cents cigars in the York County, Pennsylvania, district, submitted by M. D. Popovic, Chief Statistician of the Code Authority for the Cigar Manufacturing Industry to the Research and Planning Division of the National Recovery Administration, October 2, 1934. Coverage was 1909 employees in 78 factories. The following information was given:
  - (1) Frequency distribution of hand cigar rollers as to productivity.
  - (2) Frequency distribution of ages of hand cigar rollers by numbers and by productivity.
- I. Statistics of costs of production of two-for-five-cents cigars made by hand in the York County, Pennsylvania, district, submitted joint-ly by O. C. Strackbein, Economic Adviser to the Cigar Makers' International Union of America, and K. L. Cox, representing the Code Authority for the Cigar Manufacturing Industry. The data related to the first six months of 1934 and was submitted to the National Recovery Administration on August 9, 1934. The survey covered eight companies, three large producers, two medium-size producers, and three small producers, and 497 employees. Tables give a detailed breakdown of costs of production by individual companies (not named), and average weekly wages per forty hour week paid to various classes of employees.
- J. Brief submitted to the President of the United States for consideration with the proposed Code of Fair Competition for the Cigar Manufacturing Industry by I. M. Ornburn, President of the Cigar Makers' International Union of America, undated (late 1933 or early 1934). Information in this is taken principally from previous Government or industry service publications. It summarized the position of the Union on merchanization.

### APPENDIX VI

#### TABLE I

LIST OF BASIC TABLES RECEIVED FROM THE DEPARTMENT OF LABOR ON NUMBER OF EMPLOYEES, HOURS, AND EARNINGS IN THE CIGARETTE, SNUFF, CHEWING, AND SMOKING TOBACCO MANUFACTURING INDUSTRY

- (Note: These tables, (176 in number) existing in original photostat form are on File; Division of Review, Tobacco Unit, National Recovery Administration.)
- Table 1A. -- Number of Employees, Hours Worked, and Weekly and Hourly
  Earnings in 1933 and 1935 by Industry and Company Groups,
  Color, and Sex. All Reporting Plants (simple averages).
- Table 1B. -- Number of Employees, Hours Worked, and Weekly and Hourly
  Earnings in 1933 and 1935 by Industry and Company Groups,
  Color, and Sex. Identical Plants (simple averages).
- Table 1C. -- Number of Employees, Hours Worked, and Weekly and Hourly Earnings in 1933 and 1935 by Industry and Company Groups, Color, and Sex. All Reporting Plants (weighted averages).
- Table 1D. -- Number of Employees, Hours Worked, and Weekly and Hourly Earnings in 1933 and 1935 by Industry and Company Groups, Color and Sex. Identical Plants (weighted averages).
- Table 2 -- Number of Employees, Hours Worked, and Weekly and Hourly Earnings in 1933 and 1935 by District, Industry Group, Color and Sex.
- Table 3A -- Number of Employees, Hours Worked, and Weekly and Hourly Earnings in 1930, 1933, and 1935, by Occupation, Industry Group, and Sex. Total Code Industry.
- Table 3B -- Number of Emoloyees, Hours Worked and Weekly and Hourly Earnings in 1930, 1933 and 1935, by Occupation, Industry Group, and Sex. Cigarettes.
- Table 30 -- Number of Employees, Hours worked and Weekly and Hourly Earnings in 1930, 1933 and 1935, by Occupation, Industry Group and Sex. Chewing and Smoking Tobacco and Snuff.
- Table 4A, Part 1 -- Number of Employees in 1933 and 1935 by Occupation, Color, and Sex. By Industry and Company Groups. All Reporting Plants Total Code Industry.
  - Addendum, Part 1 -- Number of Employees in 1933 and 1935 by Color, Sex, and Combined Occupations, and by Industry and Company Groups. All Reporting Plants -- Total Code Industry.
- Table 4A, Part 2 -- Number of Employees in 1933 and 1935 by Occupation, Color, and Sex, by Industry and Company Groups. All reporting Plants Cigarettes.

- Addendum, Part 2 -- Number of Employees in 1933 and 1935 by Color, Sex and Combined Occupations and by Industry and Company Groups. All Reporting Plants Cigarettes.
- Table 4A, Part 3 -- Number of Employees in 1933 and 1935 by Occupation,
  Color and Sex, and by Industry and Company Groups. All reporting Plants -- Smoking and Chewing and Snuff.
  - Addendum, Part 3 -- Number of Employees in 1933 and 1935 by Color, Sex and Combined Occupations and by Industry and Company Groups. All Reporting Plants -- Smoking and Chewing and Snuff.
- Table 4B, Part 1 -- Number of Employees in 1933 and 1935 by Occupation, Color, and Sex, and by Industry and Company Groups. Identical Plants Total Code Industry.
  - Addendum Part 1 -- Number of Employees in 1933 and 1935 by Color, Sex, and Combined Occupations, and by Industry and Company Groups. Identical Plants Total Code Industry.
- Table 4B, Part 2 -- Number of Employees in 1933 and 1935 by Occupation, Color and Sex, by Industry and Company Groups. Identical Plants Cigarette Industry.
  - Addendum, Part 2 -- Number of Employees in 1933 and 1935 by Color, Sex and Combined Occupations and by Industry and Company Groups. Identical Plants Cigarettes.
- Table 4B, Part 3 -- Number of Employees in 1933 and 1935 by Occupation, Color, and Sex and by Industry and Company Groups. Identical Plants Chewing and Smoking Tobacco and Snuff.
  - Addendum, Part 3 -- Number of Employees in 1933 and 1935 by Color, Sex and Combined Occupations and by Industry and Company Groups. Identical Plants Smoking and Chewing and Snuff.
- Table 5A, Part 1 -- Average Hours Worked in One Week for 1933 and 1935 by Occupation, Color, and Sex, by Industry and Company Groups.

  All Reporting Plants Total Code Industry.
  - Addendum, Part 1. -- Average Hours Worked in One Week for 1933 and 1935 by Color, Sex, and Combined Occupations, and by Industry and Company Groups. All Reporting Plants Total Code Industry.
- Table 5A, Part 2 -- Average Hours Worked in One Week for 1933 and 1935 by Occupation, Color and Sex -- by Industry and Company Groups. All Reporting Plants Cigarettes.
  - Addendum, Part 2 -- Average Hours Worked in One Week for 1933 and 1935, by Color, Sex and Combined Occupations and by Industry and Company Groups. All Reporting Plants -- Cigarettes.

- Table 5A, Part 3 -- Average Hours Worked in One Week for 1933 and 1935 by Occupation, Color, and Sex by Industry and Company Groups.

  All Reporting Plants Smoking, Chewing and Snuff.
  - Addendum, Part 3 -- Average Hours Worked in One Week for 1933 and 1935, by Color, Sex and Combined Occupations and by Industry and Company Groups. All Reporting Plants Smoking and Chewing and Snuff.
- Table 5B, Part 1 -- Average Hours Worked in One week for 1933 and 1935 by Occupation, Color, and Sex by Industry and Company Groups.

  Identical Plants Total Code Industry.
  - Addendum, Part 1. Average Hours Worked in One Week for 1933 and 1935 by Color, Sex, and Combined Occupations, and by Industry and Company Groups. Identical Plants → Total Code Industry.
- Table 5B, Part 2 -- Average Hours Worked in One Week for 1933 and 1935 by Occupation, Color and Sex and by Industry and Company Groups. Identical Plants Cigarettes.
  - Addendum, Part 2 -- Average Hours Worked in One Week for 1933 and 1935 by Color, Sex and Combined Occupations and by Industry and Company Groups. Identical Plants Cigarettes.
- Table 5B, Part 3 -- Average Hours Worked in One Week for 1933 and 1935 by Occupation, Color, and Sex. By Industry and Company Groups.

  Identical Plants Smoking and Chewing and Snuff.
  - Addendum, Part 3 -- Average Hours Worked in One Week for 1933 and 1935 by Color, Sex and Combined Occupations and by Industry and Company Groups. Identical Plants Smoking and Chewing and Snuff.
- Table 6A, Part 1 -- Average Earnings in One Week for 1933 and 1935 by Occupation, Color, and Sex, by Industry and Company Groups.

  All Reporting Plants Total Code Industry.
  - Addendum, Part 1 -- Average Earnings in One Week for 1933 and 1935 by Color, Sex, and Combined Occupations, and by Industry and Company Groups. All Reporting Plants Total Code Industry.
- Table 6A, Part 2 Average Earnings in One Week for 1933 and 1935 by Occupation, Color and Sex; by Industry and Company Groups. All Reporting Plants -- Cigarettes.
  - Addendum, Part 2 -- Average Earnings in One Week for 1933 and 1935 by Color, Sex and Combined Occupations and by Industry and Company Groups. All Reporting Plants Cigarettes.

- Table 6A, Part 3: -- Average Earnings in One Week for 1933 and 1935 by Occupation, Color and Sex; by Industry and Company Groups. All Reporting Plants -- Smoking and Chewing and Snuff.
  - Addendum, Part 3 -- Average Earnings in One Week for 1933 and 1935 by Color, Sex and Combined Occupations and by Industry and Company Groups. All Reporting Plants -- Smoking and Chewing and Snuff.
- Table 6B, Part 1 -- Average Earnings in One Week for 1933 and 1935 by Occupation, Color, and Sex; by Industry and Company Groups. Identical Plants -- Total Code Industry.
  - Addendum, Part 1 -- Average Earnings in One Week for 1933 and 1935 by Color, Sex, and Combined Occupations, and by Industry and Company Groups. Identical Plants -- Total Code Industry.
- Table 6B, Part 2 -- Average Earnings in One Week for 1933 and 1935 by Occupation, Color and Sex; by Industry and Company Groups. Identical plants -- Cigarettes.
  - Addendum, Part 2 -- Average Earnings in One Week for 1933 and 1935 by Color, Sex and Combined Occupations and by Industry and Company Groups. Identical plants -- Cigarettes.
- Table 6B, Part 3 -- Average Earnings in One Week for 1933 and 1935; by Occupation, Color and Sex; by Industry and Company Group.

  Identical Plants Smoking and Chewing and Snuff.
  - Addendum, Part 3 -- Average Earnings in One Week for 1933 and 1935 by Color, Sex and Combined Occupations and by Industry and Company Groups. Identical Plants Smoking and Chewing and Snuff.
- Table 7A, Part 1 -- Average Hourly Earnings in 1933 and 1935 by Occupation, Color and Sex; by Industry and Company Croups. All Reporting Plants Total Code Industry.
  - Addendum, Part 1 -- Average Earnings Per Hour for 1933 and 1935, by Color, Sex, and Combined Occupations, and by Industry, and Company Groups. All Reporting Plants Total Code Industry.
- Table 7A, Part 2 -- Average Hourly Earnings in 1933 and 1935 by Occupation, Color and Sex; by Industry and Company Groups. All Reporting Plants Cigarettes.
  - Addendum, Part 2 -- Average Earnings Per Hour for 1933 and 1935, by Color, Sex and Combined Occupations and by Industry and Company Groups. All Reporting Plants -- Cigarettes.

- Table 7A, Part 3 -- Average Hourly Earnings in 1933 and 1935; by Occupation, Color and Sex; by Industry and Company Groups. All Reporting Plants Smoking and Chewing and Snuff.
  - Addendum, Part 3 -- Average Earnings Per Hour for 1933 and 1935 by Color, Sex and Combined Occupations and by Industry and Company Groups. All Reporting Plants Smoking and Chewing and Snuff.
- Table 7B, Part 1 -- Average Hourly Earnings in 1933 and 1935 by Occupation, Color, and Sex -- by Industry and Company Groups, Identical Plants -- Total Code Industry.
  - Addendum, Part 1 -- Average Earnings Per Hour for 1933 and 1935 by Color, Sex, and Combined Occupations, and by Industry and Company Groups. Identical Plants -- Total Code Industry.
- Table 7B, Part 2 -- Average Hourly Earnings in 1933 and 1935 by Occupation, Color and Sex; by Industry and Company Groups.

  Identical Plants -- Cigarettes.
  - Addendum, Part 2 -- Average Earnings Per Hour for 1933 and 1935 by Color and Sex and Combined Occupations and by Industry and Company Groups. Identical Plants -- Cigarettes.
- Table 7B, Part 3 -- Average Hourly Earnings in 1933 and 1935 by Occupation, Color and Sex; by Industry and Company Groups. Identical Plants -- Smoking and Chewing and Smuff.
  - Addendum, Part 3 -- Average Earnings Per Hour for 1933 and 1935 by Color, Sex and Combined Occupations and by Industry and Company Groups. Identical Plants -- Smoking and Chewing and Snuff.
- Table 8, Part 1 -- Distribution of Employees in 1933 and 1935 by Number of Hours Worked in One Week for all Occupations Combined and for Selected Occupations. Total Code Industry -- All Reporting Plants. (In BLS Files).
- Table 8, Part 2 -- Distribution of Employees in 1933 and 1935 by Number of Hours Worked in One Week for All Occupations Combined and for Selected Occupations. Cigarette Industry -- All Reporting Plants. (In BLS Files)
- Table 8, Part 3 -- Distribution of Employees in 1933 and 1935 by Number of Hours Worked in One Week for All Occupations Combined and for Selected Occupations. Chewing and Smoking Tobacco and Snuff Industry -- All Reporting Plants. (In BLS Files)

- Table 9, Part 1 -- Distribution of Employees in 1933 and 1935 by Amounts
  Earned in One Week for All Occupations Combined and for Selected Occupations. Total Code Industry -- All Reporting Plants.
  (In BLS Files)
- Table 9, Part 2 -- Distribution of Employees in 1933 and 1935 by Amounts
  Earned in One Week for all Occupations Combined and for Selected Occupations. Cigarette Industry -- All Reporting Plants.
  (In BLS Files)
- Table 9, Part 3 -- Distribution of Employees in 1933 and 1935 by Amounts

  Earned in One Week for all Occupations Combined and for Selected Occupations. Chewing and Smoking Tobacco and Snuff Industry -- All Reporting Plants. (In BLS Files)
- Table 10, Part 1 -- Distribution of Employees in 1933 and 1935 by Average Hourly Earnings for All Occupations Combined and for Selected Occupations. Total Code Industry -- All Reporting Plants. (In BLS Files)
- Table 10, Part 2 -- Distribution of Employees in 1933 and 1935 by Average Hourly Earnings for all Occupations Combined and for Selected Occupations. Cigarette Industry -- All Reporting Plants. (In BLS Files)
- Table 10, Part 3 -- Distribution of Employees in 1933 and 1935 by Average Hourly Earnings for All Occupations Combined and for Selected Occupations. Chewing and Smoking Tobacco and Snuff Industry -- All Reporting Plants. (In BLS Files).

### Appendix 7

### DISTRIBUTION

### A. PRICE DISCRIMINATION

### 1. Special Discounts and Allowances

### (a) General

Throughout the history of the tobacco industry, it has been repeatedly asserted that the retail chains and other selected outlets possessed an important advantage over independent retailers because they receive large discounts and allowances not obtainable by their independent competitors. It has been claimed that these allowances make it possible for the chains and other outlets to sell tobacco products as "leaders" at prices which cannot be met by independent tobacco retailers without loss. There is thus created in the minds of the consuming public the impression that similar low prices prevail on all merchandise which, it is alleged, is rarely justified by actual facts.

Retail tobacco merchants, particularly the chain tobacco stores and the independent cigar stores have made vigorous protests against the practice, claiming that the large manufacturers thereby actively encouraged price cutting and "loss-leader" selling. They point to the extremely low margins on tobacco products and their inability to meet the resulting price competition and still remain in business.

### (b) Definition

As used in this report and by the Federal Trade Commission, special discounts and allowances are defined as all those forms of discounts, exclusive of cash discounts, which are not shown by the manufacturers on the face of their regular invoices but which are subsequently paid or allowed by the manufacturers to chain stores, wholesalers or other outlets.

### (c) General Characteristics

All such price concessions may be divided into three general categories: (1) volume or quantity; (2) advertising and promotional; and (3) all others. Variations in types of allowances extend from progressive discounts increasing with volume purchased, to straight cash refunds for which no explanation need be given. Credit and merchandise allowances are common.

### 2. Extent of Special Allowances

### (a) Cigarettes and Tobacco

In a study made by the Federal Trade Commission, it was shown that, in 1929, twenty manufacturers of cigarettes and tobacco from a total of 32 reporting made allowances of about \$1,578,000 or 2.66% on total sales of \$59,315,000; and in 1930, 21 of these manufacturers made allowances of more than \$2,330,000, or 1.7% on their total sales. However, on the total sales of all 32 reporting cigarette and tobacco manufacturers (amounting to \$181,525,000 in 1929 and \$219,934,000 in 1930), it was shown that .87% and 1.06% for 1929 and 1930 respectively, represented the percentages given in special allowances.

### (b) Cigars

In the Federal Trade Commission study, it was shown that in 1929, 51 manufacturers of cigars from a total of 77 reporting made allowances of more than \$1,515,000 or 4.45% on total sales of \$34,029,000; and in 1930, 55 of these manufacturers made allowances of about \$2,330,000 or 5.15% on their total sales of \$26,997,000. However, when the total sales of all reporting cigar manufacturers (\$45,451,000 in 1929 and \$43,358,000 in 1930) were given consideration, it was shown that 3.33% and 3.21% for 1929 and 1930 respectively, represented the percentages given in allowances.

### 3. Accounts with Chains and Wholesalers

### (a) Cigarettes and Tobacco

In 1930, 31 cigarette and tobacco manufacturers reported a total of 410 accounts with chains with 105 or approximately 25.6% receiving allowances. From a total of 790 wholesalers, only 101, or less than 13%, received these allowances.

In 1929, from total allowances of \$1,577,897 over \$932,215 or 59% of the allowances given went to chains and about \$645,681 or 41%, to wholesalers. In 1930, from total allowances of \$2,330,034, the chains received more than \$1,914,000 or 82% of the allowances and the wholesalers only \$415,838, or about 18%.

### (b) <u>Cigars</u>

In 1930, seventy-four (74) cigar manufacturers reported a total of 386 chain accounts with 133, or 34.46%, receiving allowances. Seventy (70) cigar manufacturers reported a total of 386 accounts with wholesalers; of these 125, or 32.38%, received allowances.

30

### 4. Rates of Special Allowances

### (a) Cigarettes and Tobacco

In 1930, sixteen (16) cigarette and tobacco manufacturers making allowances to a total of 105 chain store accounts reported that 73 received allowances under 5%; 20 from 5% to 10% to 15%; 2 from 15% to 20% and 4 accounts received in excess of 30%. In the same year, 20 cigarette and tobacco manufacturers making allowances to a total of 101 wholesalers reported that 87 received allowances under 5%; 13 received from 5% to 10% and only 1 received allowances ranging from 10% to 15%. All customers accounts carrying allowances from 15% up, with the one exception, were chain store accounts.

A large percentage of accounts carrying allowances are in the group carrying under 5%. About 70% of the chain accounts and 84% of the wholesale accounts are in this group.

### (b) Cigars

In 1930, 49 cigar manufacturers making allowances to a total of 133 chain accounts reported that 77 chains received allowances under 5%; 39 from 5% to 10%; 13 from 10% to 15%; 1 from 15% to 20%; 1 from 20% to 30%, and 2 received 30% or more. In the same year 39 cigar manufacturers making allowances to a total of 125 wholesalers reported that 100 received allowances under 5%; 16 received from 5% to 10%; 8 received from 10% to 15% and only one received 15% to 20%.

Eighty per cent of the wholesaler accounts receiving allowances are in the "under 5% group" against only 59% of the chains.

### 5. Special Allowances to Different Chains

In 1930, the cigarette and tobacco manufacturers and the cigar manufacturers gave their largest discounts to the tobacco chains. The general conclusion drawn by the Federal Trade Commission was that "the highest rates of allowances are obtained by the chains with relatively small volume." This comment follows:

"Among the 23 chains with the lowest volume of purchases in 1929, there are 7 reporting allowances of over 6 per cent on sales, whereas among the larger chains, there are only 2 reporting as high a rate. The rates of discount secured by some of the larger chains are very low. Of the 12 chains with over \$1,000,000 worth of purchases in 1929, there were 4 showing allowances of less than six tenths of 1 per cent. The allowances of The Great Atlantic and Pacific Tea Company, aggregated slightly over 1 per cent of the total sales (33 million) made to it by these manufacturers, and those of the Kroger Grocery & Baking Co., with \$10,000,000 worth of purchases were only a trifle higher than those of The Great Atlantic & Pacific Tea Co.\*\*\*\*\*\*\*

"In 1930 there were 13 chains with over \$1,000,000 worth of

purchases reported, as compared with 12 in 1929. Six of these 13 chains obtained allowances of less than 1 per cent and 3 of them of less than three tenths of 1 per cent." (\*)

A story different in detail appears in the report of the House of Representatives' Special Committee on the Investigation of the American Retail Federation in reference to H. R. 8442. This Committee secured other testimony which indicated that in 1934 the Liggett Drug Company, Inc. received allowances from twenty of the largest manufacturers of tobacco products. (\*\*)

This drug store chain received special allowances of 5% on purchases of the following brands of cigarettes: Lucky Strike, Old Gold, Wings, Listerine, Polar, Marlboro, Cambridge, Time and Kentucky Winners. The same chain received 5% on purchase of the following brands of cigars: Bayuk Phillies, La Palina, Dutch Master, San Felice, John Ruskin, Flor de Melba, Muriel, R. G. Dun, Blackstone; and 7% in the case of Garcia Grande cigars and 3% in the case of La Primadora cigars.

Moreover, the American Tobacco Company, in addition to the 5% on Lucky Strike, also allowed the chain \$25.00 per store for making window displays for one week. The Liggett & Myers Company allowed the chain \$3,300.00 per month for displays. This same chain was also granted special allowances ranging from 2\$ to 9% by several other manufacturers of tobacco products. The great preponderance of special allowances received by the Liggett Drug Company, Inc., amounted to 5%.

The testimony of the Great Atlantic and Pacific Tea Company showed that they had received \$1.00 per store per month for seven months in 1934, from the Liggett & Myers Tobacco Company -- an amount computed to be in excess of \$100,000 (\*\*\*)

### 6. Speical Allowances on Miscellaneous Merchandise and Smokers' Accessories

As reported by the Federal Trade Commission, manufacturers of miscellaneous merchandise such as candy, chewing gum and sundries, represented less than 13% of the total manufacturers reporting and also of the total manufacturers making allowances in 1929 and 1930. These allowances also accounted for less than 9% of the sales of all reporting manufacturers and less than 16% of the total sales of manufacturers making allowances. However, they represented more

- manufacturers making allowances. However, they represented more
  (\*) Federal Trade Commission report on Special Discounts and Allowances
  to Chain and Independent Distributors, Tobacco Trade, October 26,
  1933, Page 92.
- (\*\*) Hearings before the Special Committee on the investigation of the American Retail Federation, H. R. 8442, 74th Congress, first session, Vol. No. 2, July 31, August 8-9, 1935, page 75.
- (\*\*\*) Remarks of Hon. Wright Patman, Congressional Record, 74th Congress, First Session, July 29, 1933.

than half of the total allowances (\$3,305,266 from a total of \$6,417,162) given by all reporting manufacturers in 1929 and slightly more than 46% of the total in 1930 (\$3,196,581 from a total of \$6,928,992).

The group of manufacturers of smokers' accessories making allowances reported total allowances of \$18,774 in 1929 and of \$12,487 in 1930 - sums, however, that amounted roughly to 5% of sales to these tobacco distributor outlets in both years.

# 7. Special Allowances to Selected Retailers not Purchasing Directly from Manufacturers.

Special allowances by the manufacturers to retailers are by no means limited to direct buyers. Manufacturers' agents attempt to secure promotion of their products at point of sale and often show a willingness to contribute towards the expenses of a wide variety of possible services. Tobacco retailers are constantly attempting to secure special allowances for advertising a manufacturer's goods either by window, floor, or counter displays. Evidence tends to indicate that these advertising services are often only vaguely related to any measurable work or effort on the part of the retailer. Such allowances therefore usually involve discrimination and become powerful weapons in unfair competition with other members of the trade. The extent of free deals and allowances made by tobacco manufacturers to non-direct buyers is not known, but the practice has been prevalent in varying degrees for many years, depending upon the severity of the competition between manufacturers and their efforts to maintain their own individual competitive position.

### B. LEADERS AND LOSS LEADERS

1. Definitions

Few factors bearing upon the distribution of tobacco products are of more general interest than the "leader" and "loss leader" practices.

The two terms are loosely used and have indefinite meanings but they are variously considered in the distributive trades to describe merchandise sold below net invoice cost; or goods sold at net purchasing cost plus operating cost, or simply goods sold at prices below "regular prices."

The term "loss leader" as applied in the tobacco industry relates to sales below "lowest reasonable cost, which is taken to mean the cost for an important portion of the retail distribution of tobacco products showing an average cost lower than for any other significant portion of retail distribution on which the usual services are given." (\*)

Throughout the MRA Code experience, the industry usually took the position that retail sales below the "regular prices" charged by the tobacco chains and the independent tobacco retailers were "loss

<sup>(\*)</sup> Cost of Retail Distribution of Tobacco Products published by Merchandising Fact, Inc., 110 E. 42nd St., N. Y. C., 1934, page 2.

leader" sales; and in the case of wholesalers, that the same definition applied to sales made below prices charged by the accredited wholesale tobacco dealers.

### 2. Adaptability of Tobacco Products as Loss Leaders

Tobacco products, particularly the popular brands of cigarettes, make excellent "convenience items" which can be purchased at the most convenient outlet without need of shopping around for the types and qualities desired. Cigarettes are sold in small units and the stock turnover is very high. Small capital investment is involved. Cigarettes can be handled in any type of retail outlet since little space, no special equipment, no skill in selling are required. Hence tobacco products, particularly cigarettes, rank with tooth pastes, soaps, razor blades, canned soups and vegetables as excellent "loss leader" items (\*).

### 3. History of Loss Leader Selling

No information has been secured on the history of "loss leader" selling in the tobacco trade earlier than 1911. Immediately after the dissolution of the American Tobacco Company in that year, the 'United Cigar Stores Company led the way in "price wars" although some price-cutting had occurred in other branches of the retail trade. In 1913, the drug chains started a "price war" aimed at the United and the independents. During the World War prices remained stabilized but price-cutting was resumed at intervals thereafter.

In 1927 the Great Atlantic & Pacific Tea Company introduced popular brands of cigarettes for sale at cut prices in its 15,000 stores and other chain grocers followed. Intermittent outbursts of extreme pricecutting by department stores and other outlets followed. In 1928, for various periods of time, prices of "fifteen cent" brands sold at two packs for twenty-one cents in some sections of the country. Price-cutting by various outlets has been recurrent in the history of the industry, particularly since the dissolution of the American Tobacco Company. That the manufacturers have instigated and participated in price-cutting is unquestionable. The price war of 1933 when the popular "fifteen cent" brands sold down to ten cents per pack at the regular cigar stores was accompanied by a decrease in the manufacturers' list price from \$6.85 to \$5.50 per thousand. Authorities agree that this was an attempt by the large manufacturers to regain their competitive position against the progress being made by the ten cent brands then gaining foothold in the cigarette market.

Retailers using tobacco products, particularly cigarettes, as "loss leaders", are motivated by the effectiveness of price appeal. In many retail establishments where tobacco products are only a small fraction of total sales, the loss can be more easily absorbed by wider margins on other products. The nature of the competition in-

<sup>(\*)</sup> See Chain-Store Leaders and Loss Leaders, Report of the Federal Trade Commission to Senate Committee. Document No. 51 - 1935.

volves primarily the economic conflict between uni-product and . multi-product distribution. Chain cigar sotres and independent cigar stores, although they have changed character somewhat by the addition of other lines of merchandise, trap themselves when attempting to follow a "loss leader" policy. Frequently bank-ruptcy has been the result.

### 4. Effects of Loss Leader Selling

The experience resulting from the "loss leader" selling of cigarettes has not shown the same characteristics of other "loss leader" merchandise; with other merchandise, the consumer links price-cutting with deterioration in quality. Cigarette manufacturers have, however, maintained quality and have forced the distributing outlets to absorb the ill effects of price-cutting. In the case of cigars, loss leader selling has been more vulnerable and has occasionally resulted in a decrease in size of cigars and a depreciation in quality.

Manufacturers of cigars often grant exclusive franchises to whole-salers in certain territories. The wholesalers, in turn, grant exclusive rights for sale of the particular manufacturers' brands in the territories allotted to them. It frequently happens that some retail trade pirates who do not have the privilege of selling the particular brands but who are operating within the territory secure small quantities of the cigars through round-about methods of their own, and advertise them for sale at cut prices.

Obviously, immediate repercussions are felt by all other retailers who regularly sell these brands, and pressure is brought upon the wholesalers for lower prices. As an instance of the pressure, some cases, wholesalers have sold cigarettes at a markup of only 5/8 of one per cent. (\*)

"Now and again" says Reavis Cox, "the jobbers in a city get together and more or less tacitly agree to do away with some disliked practice or institution. For example, they may decide to do away with sub-jobbers by giving them a discount no greater than that allowed retailers; or they may decide simply to keep all prices up to agreed levels.

"Ordinarily, however, the principal purpose of such organizations seems to be to good the manufacturers into taking action to maintain resale prices. At times, they content themselves with repeated demands for the elimination of persisitent price cutters from the direct lists of manufacturers; at other times they demand the elimination from the direct lists of distributors who, they maintain justly or not, are not really entitled to the designation 'jobber'".

(\*\*)

<sup>(\*)</sup> Effect of Cigarette Price Regulations, Division of Research and Planning, NRA, Dec. 18, 1934, Appendix A-7, page 2.

<sup>(\*\*)</sup> The Tobacco Industry, Reavis Cox, Columbia University Press, 1933, page 258

#### APPENDIX 8

#### TABLE 1. -- LIST OF CODES IN THE TOBACCO INDUSTRY

References are to Codes of Fair Competition, as approved: Government Printing Office.

Code of Fair Competition for the Auction and Loose Leaf Tobacco Warehouse Industry, Volume XVIII, Page 694.

Code of Fair Competition for the Cigarette, Snuff, Chewing, and Smoking Tobacco Manufacturing Industry, Volume XXI, Page 95.

Ccde of Fair Competition for the Retail Tobacco Trade, Volume XII, Page 35.

Amendment to the Code of Fair Competition for the Retail Tobacco Trade, Volume XII, Page 35.

Code of Fair Competition for the Cigar Manufacturing Industry, Volume XII, Page 61.

Amendment to Code of Fair Competition for the Cigar Manufacturing Industry, Volume XVII, Page 155.

Amendment to Code of Fair Competition for the Cigar Manufacturing Industry, Volume XXII, Page 451.

Code of Fair Competition for the Wholesale Tobacco Trade, Volume  $\underline{XI}$ . Page 275.

Amendment to Code of Fair Competition for the Wholesale Tobacco Trade, Volume XVI, Page 283.

TABLE 2. -- FINISHED CODE HISTORIES IN THE TOBACCO INDUSTRY.

National Recovery Administration files:

Auction and Loose Leaf Tobacco Warehouse Industry.

Cigar Manufacturing Industry.

Cigarette, Snuff, Chewing, and Smoking Tobacco Manufacturing Industry.

Wholesale Tobacco Trade.

### Appendix 9. - Foreign Trade in Tobacco

Table Number 1. A series of charts and tables in photostat form (58 photostatic sheets), covering the exports of leaf tobacco and tobacco products from the United States to each of seven foreign countries. These photostats are in National Recovery Administration files, Tobacco Unit, Exports.

The countries covered are:

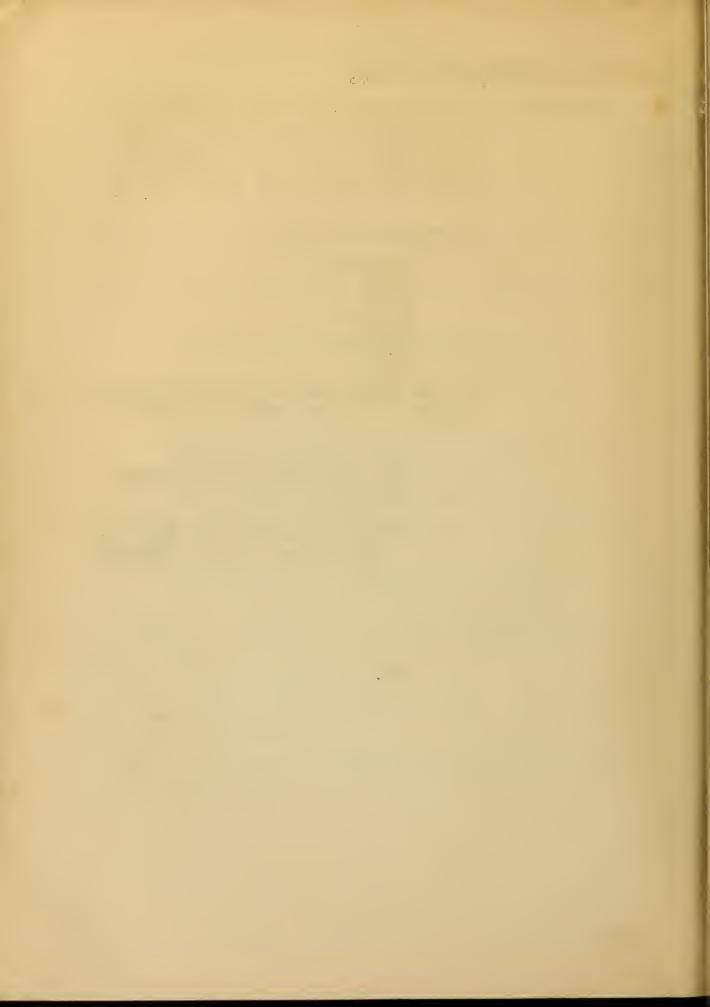
Switzerland Sweden Mexico Nicaragua Brazil Argentina Denmark

For each country named, the following information is shown (each subject comprising a separate chart):

Statement of rates of imports
Unit values and ad valorem equivalent
Quantities in metric tons, with values
in francs

An analysis of imports from years 1926-1934 inclusive, for each type of leaf, namely Burley, Dark Fired, Maryland, etc.

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#### OFFICE OF THE NATIONAL RECOVERY ADMINISTRATION

#### THE DIVISION OF REVIEW

#### THE WORK OF THE DIVISION OF REVIEW

Executive Order No. 7075, dated June 15, 1935, established the Division of Review of the National Recovery Administration. The pertinent part of the Executive Order reads thus:

The Division of Review shall assemble, analyze, and report upon the statistical information and records of experience of the operations of the various trades and industries heretofore subject to codes of fair competition, shall study the effects of such codes upon trade, industrial and labor conditions in general, and other related matters, shall make available for the protection and promotion of the public interest an adequate review of the effects of the Administration of Title I of the National Industrial Recovery Act, and the principles and policies put into effect thereunder, and shall otherwise aid the President in carrying out his functions under the said Title. I hereby appoint Leon C. Marshall, Director of the Division of Review.

The study sections set up in the Division of Review covered these areas: industry studies, foreign trade studies, labor studies, trade practice studies, statistical studies, legal studies, administration studies, miscellaneous studies, and the writing of code histories. The materials which were produced by these sections are indicated below.

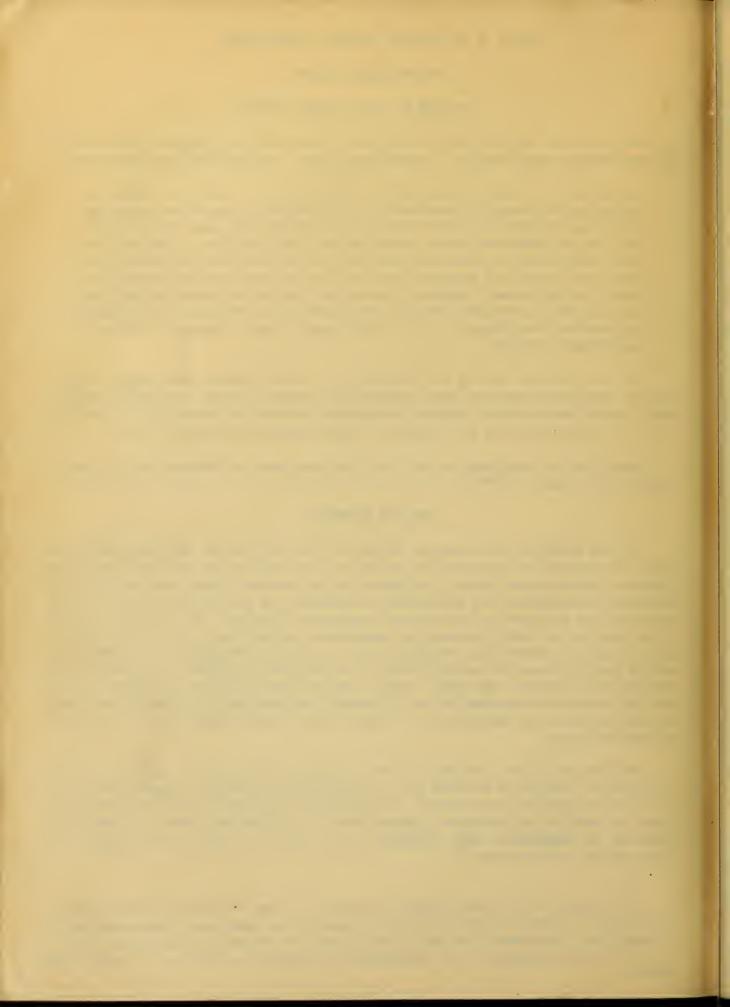
Except for the Code Histories, all items mentioned below are scheduled to be in mimeographed form by April 1, 1936.

#### THE CODE HISTORIES

The Code Histories are documented accounts of the formation and administration of the codes. They contain the definition of the industry and the principal products thereof; the classes of members in the industry; the history of code formation including an account of the sponsoring organizations, the conferences, negotiations and hearings which were held, and the activities in connection with obtaining approval of the code; the history of the administration of the code, covering the organization and operation of the code authority, the difficulties encountered in administration, the extent of compliance or non-compliance, and the general success or lack of success of the code; and an analysis of the operation of code provisions dealing with wages, hours, trade practices, and other provisions. These and other matters are canvassed not only in terms of the materials to be found in the files, but also in terms of the experiences of the deputies and others concerned with code formation and administration.

The Code Histories, (including histories of certain NRA units or agencies) are not mimeographed. They are to be turned over to the Department of Commerce in typewritten form. All told, approximately eight hundred and fifty (850) histories will be completed. This number includes all of the approved codes and some of the unapproved codes. (In Work Materials No. 18, Contents of Code Histories, will be found the outline which governed the preparation of Code Histories.)

(In the case of all approved codes and also in the case of some codes not carried to final approval, there are in NRA files further materials on industries. Particularly worthy of mention are the Volumes I, II and III which constitute the material officially submitted to the President in support of the recommendation for approval of each code. These volumes 9768—1.



set forth the origination of the codes, the sponsoring group, the evidence advanced to support the proposal, the report of the Division of Research and Planning on the industry, the recommendations of the various Advisory Boards, certain types of official correspondence, the transcript of the formal hearing, and other pertinent matter. There is also much official information relating to amendments, interpretations, exemptions, and other rulings. The materials mentioned in this paragraph were of course not a part of the work of the Division of Review.)

#### THE WORK MATERIALS SERIES

In the work of the Division of Review a considerable number of studies and compilations of data (other than those noted below in the Evidence Studies Series and the Statistical Material Series) have been made. These are listed below, grouped according to the character of the material. (In <u>Work Materials No. 17</u>, <u>Tentative Outlines and Summaries of Studies in Process</u>, the materials are fully described).

#### Industry Studies

Automobile Industry, An Economic Survey of

Bituminous Coal Industry under Free Competition and Code Regulation, Ecnomic Survey of

Electrical Manufacturing Industry, The

Fertilizer Industry; The

Fishery Industry and the Fishery Codes

Fishermen and Fishing Craft, Earnings of

Foreign Trade under the National Industrial Recovery Act

Part A - Competitive Position of the United States in International Trade 1927-29 through 1934.

Part B - Section 3 (e) of NIRA and its administration.

Part C - Imports and Importing under NRA Codes.

Part D - Exports and Exporting under NRA Codes.

Forest Products Industries, Foreign Trade Study of the

Iron and Steel Industry, The

Knitting Industries, The

Leather and Shoe Industries, The

Lumber and Timber Products Industry, Economic Problems of the

Men's Clothing Industry, The

Millinery Industry, The

Motion Picture Industry, The

Migration of Industry, The: The Shift of Twenty-Five Needle Trades From New York State, 1926 to 1934

National Labor Income by Months, 1929-35

Paper Industry, The

Production, Prices, Employment and Payrolls in Industry, Agriculture and Railway Transportation, January 1923, to date

Retail Trades Study. The

Rubber Industry Study, The

Textile Industry in the United Kingdom, France, Germany, Italy, and Japan

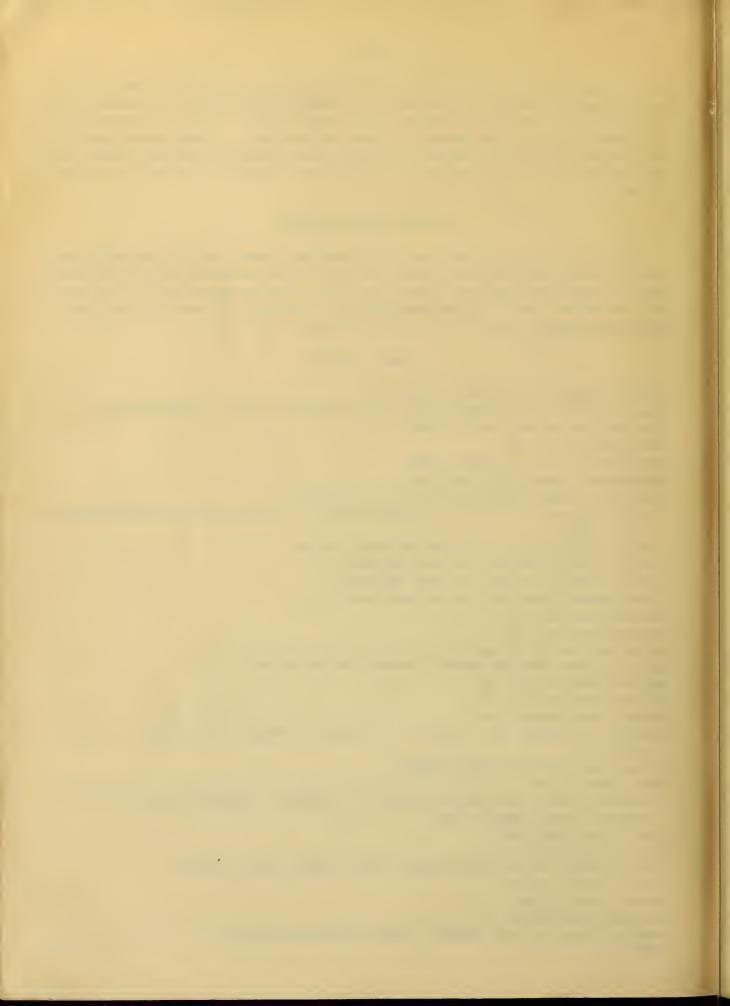
Textile Yarns and Fabrics

Tobacco Industry. The

Wholesale Trades Study, The

Women's Neckwear and Scarf Industry, Financial and Labor Data on

9768--2



Women's Apparel Industry, Some Aspects of the

#### Trade Practice Studies

Commodities, Information Concerning: A Study of NRA and Related Experiences in Control Distribution, Manufacturers' Control of: Trade Practice Provisions in Selected NRA Codes Distributive Relations in the Asbestos Industry Design Piracy: The Problem and Its Treatment Under NRA Codes Electrical Mfg. Industry: Price Filing Study Fertilizer Industry: Price Filing Study Geographical Price Relations Under Codes of Fair Competition, Control of Minimum Price Regulation Under Codes of Fair Competition Multiple Basing Point System in the Lime Industry: Operation of the Price Control in the Coffee Industry Price Filing Under NRA Codes Production Control in the Ice Industry Production Control. Case Studies in Resale Price Maintenance Legislation in the United States Retail Price Cutting, Restriction of, with special Emphasis on The Drug Industry. Trade Practice Rules of The Federal Trade Commission (1914-1936): A classification for

#### Labor Studies

Cap and Cloth Hat Industry, Commission Report on Wage Differentials in Earnings in Selected Manufacturing Industries, by States, 1933-35 Employment, Payrolls, Hours, and Wages in 115 Selected Code Industries 1933-35 Fur Manufacturing, Commission Report on Wages and Hours in Hours and Wages in American Industry

Labor Program Under the National Industrial Recovery Act, The

Part A. Introduction

Part B. Control of Hours and Reemployment

Part C. Control of Wages

Part D. Control of Other Conditions of Employment

comparision with Trade Practice Provisions of NRA Codes.

Part E. Section 7(a) of the Recovery Act

Materials in the Field of Industrial Relations PRA Census of Employment, June, October, 1933 Puerto Rico Needlework, Homeworkers Survey

#### Administrative Studies

Administrative and Legal Aspects of Stays, Exemptions and Exceptions, Code Amendments, Conditional Orders of Approval
Administrative Interpretations of NRA Codes
Administrative Law and Procedure under the NIRA
Agreements Under Sections 4(a) and 7(b) of the NIRA
Approved Codes in Industry Groups, Classification of
Basic Code, the -- (Administrative Order X-61)
Code Authorities and Their part in the Administration of the NIRA
Part A. Introduction

Part B. Nature, Composition and Organization of Code Authorities 9768-3.



- Part C. Activities of the Code Authorities
- Part D. Code Authority Finances
- Part E. Summary and Evaluation

Code Compliance Activities of the NRA

Code Making Program of the NRA in the Territories, The

Code Provisions and Related Subjects, Policy Statements Concerning

Content of NIRA Administrative Legislation

- Part A. Executive and Administrative Orders
- Part B. Labor Provisions in the Codes
- Part C. Trade Practice Provisions in the Codes
- Part D. Administrative Provisions in the Codes
- Part E. Agreements under Sections 4(a) and 7(b)
- Part F. A Type Case: The Cotton Textile Code

Labels Under NRA, A Study of

Model Code and Model Provisions for Codes, Development of

National Recovery Administration, The: A Review of its Organization and Activities NRA Insignia

President's Reemployment Agreement, The

President's Reemployment Agreement, Substitutions in Connection with the

Prison Labor Problem under NRA and the Prison Compact, The

Problems of Administration in the Overlapping of Code Definitions of Industries and Trades,
Multiple Code Coverage, Classifying Individual Members of Industries and Trades

Relationship of NRA to Government Contracts and Contracts Involving the Use of Government Funds

Relationship of NRA with States and Municipalities

Sheltered Workshops Under NRA

Uncodified Industries: A Study of Factors Limiting the Code Making Program

#### Legal Studies

Anti-Trust Laws and Unfair Competition

Collective Bargaining Agreements, the Right of Individual Employees to Enforce

Commerce Clause, Federal Regulation of the Employer-Employee Relationship Under the Delegation of Power, Certain Phases of the Principle of, with Reference to Federal Industrial

Regulatory Legislation

Enforcement, Extra-Judicial Methods of

Federal Regulation through the Joint Employment of the Power of Taxation and the Spending Power

Government Contract Provisions as a Means of Establishing Proper Economic Standards, Legal Memorandum on Possibility of

Industrial Relations in Australia, Regulation of

Intrastate Activities Which so Affect Interstate Commerce as to Bring them Under the Commerce Clause, Cases on

Legislative Possibilities of the State Constitutions

Post Office and Post Road Power — Can it be Used as a Means of Federal Industrial Regula-

State Recovery Legislation in Aid of Federal Recovery Legislation History and Analysis Tariff Rates to Secure Proper Standards of Wages and Hours, the Possibility of Variation in Trade Practices and the Anti-Trust Laws

Treaty Making Power of the United States

War Power, Can it be Used as a Means of Federal Regulation of Child Labor? 9768—4.



#### THE EVIDENCE STUDIES SERIES

The Evidence Studies were originally undertaken to gather material for pending court cases. After the Schechter decision the project was continued in order to assemble data for use in connection with the studies of the Division of Review. The data are particularly concerned with the nature, size and operations of the industry; and with the relation of the industry to interstate commerce. The industries covered by the Evidence Studies account for more than one-half of the total number of workers under codes. The list of those studies follows:

Automobile Manufacturing Industry Automotive Parts and Equipment Industry Baking Industry Boot and Shoe Manufacturing Industry Bottled Soft Drink Industry Builders' Supplies Industry Canning Industry Chemical Manufacturing Industry Cigar Manufacturing Industry Coat and Suit Industry Construction Industry Cotton Garment Industry Dress Manufacturing Industry Electrical Contracting Industry Electrical Manufacturing Industry Fabricated Metal Products Mfg. and Metal Finishing and Metal Coating Industry Fishery Industry Furniture Manufacturing Industry General Contractors Industry Graphic Arts Industry Gray Iron Foundry Industry Hosiery Industry Infant's and Children's Wear Industry Iron and Steel Industry

Leather Industry Lumber and Timber Products Industry Mason Contractors Industry Men's Clothing Industry Motion Picture Industry Motor Vehicle Retailing Trade Needlework Industry of Puerto Rico Painting and Paperhanging Industry Photo Engraving Industry Plumbing Contracting Industry Retail Lumber Industry Retail Trade Industry Retail Tire and Battery Trade Industry Rubber Manufacturing Industry Rubber Tire Manufacturing Industry Shipbuilding Industry Silk Textile Industry Structural Clay Products Industry Throwing Industry Trucking Industry Waste Materials Industry Wholesale and Retail Food Industry Wholesale Fresh Fruit and Vegetable Industry Wool Textile Industry

#### THE STATISTICAL MATERIALS SERIES

This series is supplementary to the Evidence Studies Series. The reports include data on establishments, firms, employment, payrolls, wages, hours, production capacities, shipments, sales, consumption, stocks, prices, material costs, failures, exports and imports. They also include notes on the principal qualifications that should be observed in using the data, the technical methods employed, and the applicability of the material to the study of the industries concerned. The following numbers appear in the series:

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Asphalt Shingle and Roofing Industry
Business Furniture
Candy Manufacturing Industry
Carpet and Rug Industry
Cement Industry
Cleaning and Dyeing Trade
Coffee Industry
Copper and Brass Mill Products Industry
Cotton Textile Industry
Electrical Manufacturing Industry

Fertilizer Industry
Funeral Suprly Industry
Glass Container Industry
Ice Manufacturing Industry
Knitted Outerwear Industry
Paint, Varnish, and Lacquer, Mfg. Industry
Plumbing Fixtures Industry
Rayon and Synthetic Yarn Producing Industry
Salt Producing Industry

#### THE COVERAGE

The original, and approved, plan of the Division of Review contemplated resources sufficient (a) to prepare some 1200 histories of codes and NRA units or agencies, (b) to consolidate and index the NRA files containing some 40,000,000 pieces, (c) to engage in extensive field work, (d) to secure much aid from established statistical agencies of government, (e) to assemble a considerable number of experts in various fields, (f) to conduct approximately 25% more studies than are listed above, and (g) to prepare a comprehensive summary report.

Because of reductions made in personnel and in use of outside experts, limitation of access to field work and research agencies, and lack of jurisdiction over files, the projected plan was necessarily curtailed. The most serious curtailments were the omission of the comprehensive summary report; the dropping of certain studies and the reduction in the coverage of other studies; and the abandonment of the consolidation and indexing of the files. Fortunately, there is reason to hope that the files may yet be cared for under other auspices.

Notwithstanding these limitations, if the files are ultimately consolidated and indexed the exploration of the NRA materials will have been sufficient to make them accessible and highly useful. They constitute the largest and richest single body of information concerning the problems and operations of industry ever assembled in any nation.

L. C. Marshall,
Director, Division of Review.

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